PRESENT-DAY BANKING.

FRANCIS E. STEELE.

PRESENT-DAY BANKING:

ITS METHODS, TENDENCIES AND CHARACTERISTICS.

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BY

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PREFACE.

FROM time to time during the last few years, and indeed until quite recently, I have written on current phases of banking for various newspapers and reviews, and published, in article form, summaries of lectures on banking and currency questions delivered at Bankers' Institutes, Chambers of Commerce, and kindred institutions. With the editors of certain papers I have had a convenient and elastic arrangement, in some cases formal and in others tacit, to the effect that on the occurrence of a banking or financial event of importance I should contribute or not, as leisure or inclination at the moment might prompt, an article dealing with the subject. On looking through a file of these contributions, it occurred to me that some of them dealt with banking problems still unsolved, and with financial matters still of current interest, and that these might possibly stand the test of reproduction in book form. I thereupon commenced a sifting process, putting aside articles of purely ephemeral interest, and selecting for publication such contributions as bore on subjects still of moment; certainly to the banker, possibly to the public. My notes of some twenty-five lectures

on Banking delivered at the London Chamber of Commerce were then subjected to a similar winnowing process. The majority of these—about three-fourths—were thrown aside as ultra-technical or out of date. The remainder are included in the collection. To these have been added some half-dozen papers written mainly in the hope of assisting branch managers and aspirants for management, and others dealing with the tendencies of modern banking as exemplified in the careers of representative banking men.

Explanations on one or two points are due to the reader. The first relates to a certain measure of "overlapping" of subjects. One or two instances of this may be cited by way both of example and explanation. In the first two chapters the subject of banking competition is dealt with, and attention is, naturally, directed to the attenuation of our gold reserves as one of the results of this competition. The question of gold reserves itself, however, is of such commanding importance both to bankers and to business men generally that it demands a chapter to itself, so that when the reader who survives the preliminary ordeal reaches the chapter on "Window dressing and Gold Reserves," he finds that its subject-matter has already been briefly anticipated. Similarly, in writing on the continued tendency to amalgamation in the sphere of banking, one cannot ignore so marked a feature of the movement as the great increase which it has been the means of causing in the number of branch banks. But the subject of branch extension is in itself of sufficient interest to warrant separate

consideration, and consequently it forms the staple of a further chapter under the title of "Are we Over-banked?" For this occasional overlapping of subjects I am hoping for forbearance on two grounds. The more obvious of these is that it is inevitable, since the problems of banking, like those of every other branch of business, are interdependent and intertwined. Few of them can be dealt with entirely on their merits. Each has to be considered not only in itself, but in its bearing upon other problems. The second is that few, if any, readers are likely to wade solidly and systematically through the volume from beginning to end. Sensible people who take up a volume of essays do not read the essays in order. They select those of which the titles interest them. Readers of the present work who adopt this method will probably not notice the inevitable repetition to which I have felt bound to refer.

Another matter requiring a word of explanation is the inclusion of two or three chapters which appear to refer to matters of little present interest. The reason for this is that whilst these chapters relate to events which in themselves may have ceased to be of general concern, they deal also, and mainly, with the general principles deducible from such events, and these are as vital to-day as when the articles appeared. There is a chapter, for instance, on the failure of Dumbell's Bank. Now, although the effects of this failure will be felt in the Isle of Man for more than a generation, the subject itself is not now of interest to the mass of banking men, but the lessons to be derived

from the failure are such as successive generations of bank managers and bank directors need to keep steadily before them, and it is because the chapter in question deals principally with these lessons that, in the process of selection, it has been retained. The chapter on the "Goudie" frauds in Liverpool is a further case in point. On the ground that no one now cares much about these frauds, I had withdrawn from the list of articles to be published that which appeared in the *Economist* dealing with this matter, and only reinstated it on seeing, towards the end of last year, newspaper reports of a case in which a London bank had lost a considerable sum through frauds conducted on very similar lines; frauds which, so far as one could judge from the published reports, were effected by methods very similar to those employed in the Liverpool case, and which, it would appear, might have been detected at an earlier stage if the practical precautions advocated in the *Economist* article had been in force at the branch where they were perpetrated. For the inclusion of the chapter which deals with the weak points of the Bank Charter Act no apology is offered under this head, since the need for the amendment of the Act appears to me to be as great to-day as when the article which forms the chapter was penned.

The only articles concerning the reproduction of which I have really hesitated are two which appeared in the *Bankers' Magazine* under the heading "Banking Don'ts," and which are here reproduced under the titles "How to deal with Head Office" and "Banking

Don'ts for Juniors." These were written, not for publication, but to beguile an hour or two on a wet morning during a holiday, after I had read, in an odd copy of the *Strand Magazine*, an amusing series of "Cricketing Don'ts" by A. C. Maclaren. The balance in favour of their inclusion here was turned by my happening to hear that the general manager of a bank, other than my own, seeing the first series of "Don'ts" in the *Bankers' Magazine*, had rung for his chief inspector of branches and suggested that the article might with advantage be printed and circulated among his branch managers. This will account, to serious readers, for the presence, in a sober work, of two somewhat flippant chapters, the titles of which I have mentioned in order that such readers may know what to avoid. Those who, on the other hand, may consider the contents of the book somewhat "heavy," may possibly glean negative comfort from the assurance that many of the articles published are light as air compared with others which have been omitted.

Whatever the defects of the book, I venture to make two claims on its behalf. It is, at any rate, practical. It embodies some of the results of a banking experience of twenty-eight years in two leading banks, the first having its strongholds in London and the home counties, the second in London and the industrial centres of the Midlands and the North. While in the service of the second of these institutions, it has been my good fortune, for twelve years, to be brought into close daily relationship with

two successive general managers, association with either of whom would be to any man a liberal education in sound banking methods and policy, whilst to have served under both has been a privilege of which I am fully sensible. The other claim which I venture to make is that throughout the work I have endeavoured to regard the subject from a commercial rather than from a purely banking standpoint. I write, necessarily, as a banker, but I recognize clearly that a banker's view of the characteristics of his business is but one of many possible views, and that upon certain tendencies of that business it is not necessarily the most impartial.

To the editors and proprietors of the *Bankers' Magazine*, the *Economist*, the *Economic Journal*, and the Financial and Commercial Supplement of the *Times*, I tender my warm thanks both for their permission to reproduce my contributions, and for the readiness and courtesy with which the permission has been accorded.

F. E. S.

LONDON,
February, 1909.

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PRESENT-DAY BANKING.

CHAPTER I.

COMPETITION IN BANKING.

1. From Within (a).

BETWEEN competition in banking and competition in most other branches of commerce there is an important line of cleavage. If manufacturers, or traders, or shipowners choose to indulge in undue competition it is largely their own affair. The public reaps the benefit of the rivalry, and can await the outcome with complacency. Up to a point, and in so far as their competition is confined to such matters as cutting rates and angling for accounts, this is equally true of banks. Shareholders feel the pinch, the "dignity of the profession" suffers, and there the matter ends. But if, in addition to rivalry of this kind, competition, or the fear of competition, causes banks to deviate from the paths of sound finance, to lend against unsatisfactory security, or to run undue

(a) From the *Times* (Financial Supplement).

risks by attenuating their liquid resources; if they adopt such a policy that, in a period of storm and stress, their liabilities to the public cannot be promptly met, it is not the shareholder alone who suffers, it is the community which has confided to the banks the care of its surplus funds. What, therefore, in many businesses would be simply a matter for the proprietors or shareholders becomes in banking a matter of general concern, and deserves corresponding attention. Petty internal forms of rivalry may, from the public standpoint, be ignored. Those forms of it—some of recent growth and others of long standing—which threaten the soundness of banking methods should be closely watched.

The relations of banks to corporations, county councils, and other local bodies afford instances of this description. Apart from actual profit, which is generally cut down almost to vanishing point, especially since corporation issues went out of fashion, there has always been a certain amount of *prestige* attached to the keeping of corporation accounts, and bankers will sometimes (mistakenly in many instances) make considerable sacrifices to retain them. Knowing this, some corporations, not satisfied with imposing very fine terms upon their bankers, go a step further, and under threats, more or less veiled, tempt them to step aside from the well-defined limits of sound banking. Such bodies may perhaps require an advance the repayment of which is to be spread over a series of years. Their officials know, quite as well as those of the bank with which they are dealing, that such a loan is a matter for an insurance office, which can afford to lock up a proportion of its funds, and not for a bank, which is bound,

by the nature of its business, to hold its assets in a liquid state. Notwithstanding this knowledge, a corporation will sometimes bring considerable pressure to bear upon its bankers to induce them to make long-term advances, and the bankers, especially if the amount be not large, are tempted to waver, knowing that another bank, in its anxiety to obtain an important account, may elect to entertain the proposal.

Sometimes the temptation takes another form, scarcely less opposed to orthodox banking policy. An important local body will make it a condition that the bank which holds its balances shall specifically hypothecate, as security for such balances, certain of its investments, thus depriving the general body of the bank's creditors of a portion of the security on which they are entitled to rely. For some, even of our largest banks, this temptation has proved too much, and we see on their balance-sheets, following the item "Investments," the ominous reservation "Of which £—— is lodged for county and other public accounts," or similar expressions. The banks which follow this practice know full well that, if they decline thus to earmark a part of their investments, other banks will be prepared to do so, and so they yield, to the detriment of their financial position. If this sort of earmarking of assets were done on a large scale the security of ordinary depositors would be seriously weakened. What is required in these and similar cases is a clear and binding understanding between the leading banks—the others would not matter, since accounts of such magnitude would not be kept at unimportant institutions—to the effect that granting advances for a term of years, receiving deposits for which the account-holders require specific

security, and other practices involving breaches of sound banking, are forms of transaction which will on no account be entertained. The evil would then be prevented, banking business would follow sound and normal lines, and a policy which, though at present confined within narrow limits, would prove a source of general weakness if extended, would be effectually checked. So long as competition is unfettered the germ of these evils will remain.

A further, though minor, difficulty frequently occurs in connection with large accounts. For reasons which are obvious, many corporations and large companies issue cheques bearing a receipt form at the foot, and bearing also an instruction to the bankers not to pay the amount specified unless the receipt is signed. This condition removes such documents from the category of cheques altogether, since it is of the essence of a cheque that it shall be unconditional. Bankers paying them are therefore deprived of the protection afforded by the section of the Bills of Exchange Act which expressly absolves them from liability in the event of forged endorsements, and the paying bank is consequently placed in the position of being liable for the genuineness of signatures which it has no possible means of verifying. The case may, of course, be met, so far as the paying banker is concerned, by an indemnity from the issuer of the cheques, but here, again, the unwholesome dread of competition creeps in, and in some instances causes the bank to hesitate in taking so necessary a precaution. If this were a matter affecting paying bankers only it would not concern us here. It would be a matter of "internal" competition simply. It is because, under certain very

possible conditions, it also involves risks to the collecting bankers and to clients that it is worthy of remark.

A tendency on the part of banks to allow themselves to be used as building societies is largely the result of the increased competition engendered by the rapid growth which recent years have seen in the policy of branch extension. New branches have to justify their existence by showing a profit at as early a stage as possible, and their managers are sometimes inclined to entertain proposals for advances against house property to comparatively weak borrowers who propose to effect repayment in instalments spread over a series of years. Now, lending a strictly limited proportion of its funds to undoubted borrowers against deeds, or making purely temporary advances against such security with ample margins pending the completion of mortgages in course of arrangement, is legitimate banking; but lending to any considerable extent to comparatively needy clients whose only idea of repayment, short of the sale of the security, is a long and gradual process, is not; nor is the still more reprehensible practice, which ought not to have to be mentioned at all in such a connection as this, of financing builders who ask for successive advances, against architects' certificates or otherwise, as the work of construction progresses. Such transactions are perfectly legitimate, of course, but not for a bank, and no threat that another bank will undertake them should cause a branch manager even to submit them to headquarters. He should remember, and if he forgets he should be promptly reminded, that a close attention to sound banking principles by his bank as a whole is of far greater moment than

the half-yearly profit return of any individual branch.

The point, of course, at which banking competition most nearly affects the general welfare of the community is that at which it has the effect of causing the competitors to conduct their business on a dangerously small basis of cash; to indulge in "banking up to the hilt." The dividend fetish, however, has been set up; it has, apparently, to be maintained, and, therefore, a proportion of banking resources which should be employed in strengthening reserves of cash against eventualities is employed in making advances. Unfortunately, we are becoming accustomed to this kind of thing. Window-dressing is looked for, as a matter of course, every time a monthly statement has to be published; while at the turn of each half-year we have come to regard with an equanimity which is almost cynical an increase of millions in the amount lent by the Bank of England to bill brokers from whom, for the purpose of making a show of strength which is entirely misleading, the banks have temporarily recalled advances (*a*). Some of the temptations to which I have referred as resulting from competition are purely exceptional and local. They lurk in corners only, never venturing into the open. But this whittling down of banking reserves comes within a different category. It is competition naked and unashamed.

(*a*) The amount so lent by the Bank of England at the turn of the year 1908 was estimated in the most reliable quarters at between 18 and 21 millions sterling.

CHAPTER II.

COMPETITION IN BANKING.

2. From Without (a).

APART from internal rivalries, which are inevitable, bankers are considerably troubled by the competition of the State through the medium of the savings banks; of corporations which appeal to the public direct for deposits; and of the London branches of powerful foreign banks. Every provincial banker knows something of the extent to which savings banks and corporations attract funds which would otherwise find their way to bankers who have to rely solely upon private initiative and support, while only the London banker realizes at how many points the path of English banks is crossed by foreign financial institutions.

On some of the complaints against the savings banks as competitors for the business of the small depositor little sympathy need be wasted. No one can reasonably blame either the Legislature which created these institutions or the depositors who prefer State security and 2½ per cent. interest year in and year out to the security offered by a joint stock bank and a

(a) From the *Times* (Financial Supplement).

fluctuating but usually lower rate. There are, however, a few elementary conditions which the community at large has a right to see fulfilled in the case of a "thrift" bank in any country. Such a bank, for example, should confine its operations so far as practicable to assisting those classes which are least able to protect themselves in the disposal of their savings; it should, while enjoying the credit of the State, not become in the least degree a charge upon the revenue; and it should hold a fair proportion of its deposits as a cash reserve—not nearly so large a proportion, of course, as is necessary in the case of an ordinary bank, but still a proportion. These conditions are not put forward from the standpoint of the banker. Where certain forms of rivalry are concerned, such as the competition of the State on the one hand, arising from the desire to encourage thrift, and the competition of foreign banks on the other, bringing cheap facilities and cheap foreign capital within the reach of British commerce, the "empirical coefficient" has to be allowed for in appraising banking opinion, and the position has to be surveyed from a more general standpoint. Obvious economic expediency dictates such reasonable precautions as those above indicated, and the mere enumeration of them suffices to remind us of the exceedingly limited extent to which they have been adopted in our Government savings bank system. This is a matter for the taxpayer quite as much as for the banker.

To the banker, especially in the country, the competition of corporations for deposits is a more serious problem than the competition of the Savings Bank Department. It is of more recent growth; it is

more effective; and it affects the banker in two ways. He sees deposits withdrawn and diverted from himself by the offer of anything between three and four per cent. interest, and inasmuch as the deposits so obtained are, as we have recently been forcibly reminded, sometimes sunk in permanent and even unproductive undertakings, he is liable to be called upon to provide the funds to enable his amateur rivals to meet unusually large withdrawals. If corporations are to undertake banking operations they, too, must conform to banking rules. If they do this neither the banker nor the ratepayer will have a grievance, but until and unless they do the banker will lose business, and the ratepayer will run risks which he is only now beginning to realize. In view of the shrill chorus (perhaps I should say fugue) in which the chairmen of our leading banks have lately indulged on the theme of municipal competition, there is no need to enlarge further on this phase. It may be left with the remark that, conducted within well-regulated limits, such competition is legitimate, and that when those limits are not observed the banker's grievance, considerable though it be, is eclipsed by the risk in which the ratepayer is involved.

It is with a feeling almost of relief that one turns from State and municipal rivalry with banking to the competition between English and foreign banks—a form of struggle in which, at any rate, the battle is in the main a fair one and the conditions equal. There has been of late years a multiplication in London of branch offices of banks the headquarters of which are in foreign centres—banks with paid-up capitals in several instances much larger than those of our

home institutions, and with the command of large Continental resources available for employment in Lombard Street. There can be no doubt that the establishment and rapid growth in London of banks of which the Deutsche Bank, the Dresdner Bank, the Crédit Lyonnais, the Société Générale, and the "Comptoir" are types, has made a sensible difference to certain English houses. A foreign bank which establishes a branch in London naturally dispenses with the services of a London banker as agent, and the commissions on letters of credit, on the negotiation of documentary and other bills, and on Stock Exchange transactions, are diverted to foreign channels, while discount rates, already reduced by internal emulation, are still further cut down by the increased foreign investment in English paper.

It is not only the big London institutions which feel this rivalry. Our own colonial and foreign banks feel the pinch keenly, since in areas which at one period—their Golden Age—they had almost to themselves, they now find themselves confronted by branch offices of these foreign institutions, and London hears merely the echoes of the fight which rages in Bombay, Rio, Hong-Kong, Cairo, and in the many other places where international trade has found a centre. Fortunately our home banks have consolations on which they can fall back when considering this phase of rivalry. Foreign banks directly represented here may dispense with a London agent, but they cannot dispense with a clearing banker, who partially recoups himself for the loss he has sustained in the one direction by the profit he makes in the other, for we have not yet arrived at the Gilbertian stage, which

seems approaching, when clearing banks will have to subsidize the banks for which they clear. Then, too, as Sir Felix Schuster once pointed out, this competition is not so much with British bankers, as we understand the term, as with the merchant banker who does a business similar to that carried on by these foreign banks. It may also be noted that the existence in our own metropolis of a steadily increasing number of banks of foreign origin is in itself a distinct and unmistakable tribute to the long-threatened but still surviving pre-eminence of London as the world's clearing-house, and brings with it in this connection advantages which may well be set off against the increase of competition of which it is a cause and sign.

Looking at the matter in another light, it may further be remarked that the success of this foreign invasion—for it is a success—is partly due to our own shortcomings. If our ideas as regards foreign business were less hide-bound and our methods more elastic, we could ourselves transact much of the business which, under present conditions, we have to entrust to the foreign banker and exchange broker; witness the curious fact that of the leading London joint stock banks only a very few possess a Foreign Exchange department.

Another point to be remembered is that the employment of foreign funds in the London money market, though not without contingent risk, enables our manufacturers and traders to obtain discount and other accommodation at a lower rate than would otherwise be possible, and that to it we partially owe the fact that in the last twenty years, with some

exceptions, money has, on the average, been obtainable more cheaply in London than in most of its great rivals for "world-business." To the banker this affords no consolation, and is not offered as such. The position has once more to be surveyed from the standpoint of the general good, and even bankers can on occasion discard the professional blinkers which sometimes seem to limit their horizon, and take a wider view. To the business community as a whole foreign competition with English banking is by no means an evil. To the English banker it will in future be less of a grievance if he attaches to it its proper significance, regarding it partly as a compliment to his country, but mainly as an incentive to himself.

CHAPTER III.

"WINDOW-DRESSING" AND GOLD RESERVES (*a*).

"YOU cannot dress your windows unless you have something to dress them with." This was one of the remarks made by Sir Felix Schuster in the recent discussion on the suggestion made by Mr. Spencer Phillips, at the Institute of Bankers, to the effect that every bank should do what only very few banks do now—publish a monthly statement of its position. The remark sounds like a platitude, and superficially, of course, it is; but it nevertheless affords the clue to the solution of the problem dealt with by Mr. Phillips, probably the most important problem confronting the world of banking and finance.

Everybody knows what this problem is. It arises from the fact that the gold reserve of the country is inadequate in view of the possible demands which may be made upon it. Speaking in round figures, the banking deposits of the United Kingdom, including the sums in the Post Office and Trustee Savings

(*a*) Reprinted from the *Times* (Financial Supplement). The article was written before Sir Felix Schuster's "1907" Suggestions on the subject of Gold Reserves were put forward.

Banks, amount to something like a thousand millions sterling, and against this huge sum, of which the greater part is payable on demand or at short notice, there is a little till money, held by the banks scattered over the country, a few amounts held as a special reserve by some of the stronger banking institutions, and 25 millions of gold—a percentage of 2½ per cent. —held by the Bank of England. It is generally admitted that such a reserve, although larger than when the question came up acutely at the time of the Baring crisis, is still quite inadequate. Few banks keep sufficient reserves; many keep a reserve which is entirely insufficient, and some, *pace* Mr. Phillips, keep none at all. On the last point let the president of the Institute speak for himself. After observing that the banks which publish their accounts usually show a proportion of cash to liabilities of about 15 per cent., he continues—"But what about the other two hundred banks? I have had, perhaps, a better opportunity of looking into the arcana of different banks than some people, and my experience of country banks generally makes me doubt whether they all act up to the above-mentioned standard." Then comes a remarkable admission, in one sense the most notable feature of the utterance—

"I may add that a joint stock bank which came into our fold some years ago, whose reputation and position were second to none in the kingdom, and justly so too, and was a model of good management in other respects, employed every farthing they possessed, save and except what they required for till money, up to the hilt every day; feeling sure that by means of their investments, which were

gilt-edged, though not Consols, they would always be helped over the stile if pressure came. An that, I may say, is not an exceptional case."

This is a bold statement, frankly and deliberately made at a banking gathering by the chairman of Lloyds Bank, the biggest bank in the country. That such an experience on the part of an amalgamating bank is by no means general, the present writer has the best of reasons for asserting. As an instance of a diametrically opposite kind may be mentioned the case of a "taken over" bank whose policy, generally carried out, was to keep 33 per cent. in cash, 33 per cent. in investments, and to lend the rest of its deposits. Nevertheless, we have before us the fact, emphasized by Mr. Phillips's admissions, and not to be ignored, that as a rule the reserves of our banks, provincial and metropolitan, are smaller than they should be, and smaller than their immense superstructure of credit demands. Remedies for insufficient reserves have been offered in plenty, but what has become of them? Mr. Goschen's one-pound note scheme—forgotten; the German elastic limit system—admirable as a partial solution, but German, and therefore damned; the "Tritton scheme"—stillborn; the "other securities" suggestion—ingenious, but not understood. The reason why reform on any of these lines has not been effected is that all of them, like Mr. Disraeli's early franchise proposals, are considered to be "fancy" schemes; they all involve a distinct departure from established methods, and such a departure, however desirable on its merits, is precisely what a conservative financial community like ours cannot countenance. The

scheme advocated by Mr. Phillips, and extended by Sir Felix Schuster, is, on the other hand, simple, though not new. It involves the minimum of departure from tradition, so far as system is concerned, and would merely carry to a logical conclusion a wholesome reform already initiated and to which we are getting accustomed. Induce every joint stock bank to publish its accounts monthly at least, weekly if possible; see to it that the figures published represent the average reserve, and not the amount held on the "making-up" day; arrange for the larger stock of gold which this publicity would ensure, to be kept, not by an association of joint stock banks or by the individual banks, but by the Bank of England, under an arrangement by which it should constitute a real reserve distinctively held and only available under defined circumstances, and we have the basis of a satisfactory solution. The difficulty will not be solved, however, until the bank shareholder is willing to face a temporary diminution in his dividends. It is because, while every one is in favour of larger reserves, no one is willing to pay the price involved, that "window-dressing" still has its votaries, and that the endless discussions of the problem of reserves have hitherto proved so fruitless. An imperfect method of publishing accounts, partially adopted, has done something. An improved method, carried out generally, should do more. The cost is an insurance premium, and should be so regarded.

CHAPTER IV.

BANK AMALGAMATIONS.

1. An Economic Survey (*a*).

DURING the past few years the tendency to amalgamation, discernible in almost every department of affairs, has completely changed the framework of English banking. The coalitions which have occurred have been of the most various types. Private banks have amalgamated with private and with joint stock concerns, joint stock banks have formed coalitions among themselves; London banks have either absorbed or been aborbed by country businesses, and metropolitan institutions have joined forces with each other. A ready way of realizing the extent of these changes is to compare to-day's list of metropolitan clearing banks with that of the late "eighties." The Alliance, for example, which then came first in alphabetical order, has been merged into Parr's, and the two have taken over the Consolidated; Barclay's have swallowed a host of banks, metropolitan and provincial. Barnett's and Bosanquet's have both been merged in Lloyds, itself the

(*a*) From the *Economic Journal.* (Written before the writer joined the staff of an "amalgamating" bank.)

product of a long string of previous fusions. Brown Janson's also has been absorbed by Lloyds, the City Bank by the "Midland," and the Consolidated, as we have seen, has merged its identity; Dimsdale's have been taken over by Prescott's (since merged in the "Union"), Fuller's by Parr's, and so on throughout the list, the only semblance of a "stand" being in the case of the middle letters of the alphabet. If banking were but one business out of the many, or if the tendency towards concentration had lately shown any sign of dying down, it is possible that the subject of bank amalgamations would not be worthy of separate consideration in these pages and at the present time. Its claim to that consideration arises mainly from the acknowledged interdependence of banking and all other forms of business, which renders banking developments a matter of general concern, and partly from the occurrence during recent years of numerous and important fusions, which indicate that although the tendency to amalgamation has obvious limits, it has as yet by no means spent its force.

The different combinations formed by banks are so kaleidoscopic that any rigid classification of the causes to which they are due is almost an impossibility, but for the present purpose it will be sufficient to divide these causes quite roughly into two groups, the first comprising those which banking shares with other forms of commerce, the second consisting of influences peculiar to banking. Foremost among the motives to amalgamation which banking shares with other businesses, is the popularity of the joint stock principle. The number of private trading firms of every description which are every year converted into

limited companies is simply enormous, and it would indeed have been curious if banking had escaped the general trend. It has been laid down on high economic authority that the kind of businesses most likely to succeed as companies are those which require big capitals, and in which the work involved is largely of a routine character, and it cannot be denied that both of these requirements are fully met by banks. By far the most common form which the amalgamations of the last few years have taken has been the absorption of private banks by their younger and more pushing joint stock rivals. Many circumstances have favoured the change. The death or retirement of active partners, the comparatively stationary condition of many private banks as regards new business, the keen competition offered by the branches of big banking companies—these and many other influences, some casual and others inevitable, have combined to favour the fuller application of the joint stock principle to banking and the gradual elimination of the private banker as such. Old-established private banks with valuable connections have become fused with progressive joint stock concerns possessing larger resources, and the union, far from being the one-sided arrangement which is often supposed, has proved of mutual advantage, each of the consenting parties supplying elements which the other lacked.

It is beyond doubt that a potent factor in amalgamations generally, and in banking amalgamations especially, is the large reduction in working expenses which it renders possible. Practical experience, upon which the well-known teaching of economic science on the point is based, has long demonstrated how

many economies are rendered possible in large concerns which are out of the question in small ones. When two banks amalgamate, there are very many ways in which expenses may be cut down, though some of the economies are contingent rather than immediate. To take one small instance out of the many, it is very rare indeed that all the directors of two uniting banks join the board of the new joint institution. When the Metropolitan and Birmingham took over the business of the South Wales Union Bank, only four of the directors of the absorbed bank joined the board of the new concern. When the Consolidated and Parr's joined forces, less than half of the thirteen directors of the Consolidated were allotted places in the new directorate, and so on. This of course means an immediate saving in directors' fees; and even in the rarer instances in which, through the banks meeting on more equal terms, the whole of the directors of the uniting institutions have remained on the joint board, an eventual gain has accrued through an arrangement by which vacancies on the board have not been filled up until the number of directors has been reduced to a given point. A further instance, at quite the other end of the scale, comes to mind. Most banks in large towns have a staff of clerks and messengers whose business it is to go round day by day to all the other banks in the town and neighbourhood for the purpose of presenting cheques and bills for payment. Now, when two banks in the same town amalgamate, an economy is at once rendered possible, inasmuch as, by a slight redistribution of districts, the cheques of the two banks can be collected by a staff very little larger

than that previously required for one. Here, again, the whole saving does not accrue immediately, for it is not the custom in banking, as in some businesses, to accompany a resolution for amalgamation with a notice to quit to members of the staff, but the saving occurs when vacancies arise. In neither of these cases is the saving effected very great. Directors' fees and "walk-clerks'" salaries are not a large item. They are cited here not for their importance but for their significance, and because they furnish convenient illustrations of a process of retrenchment for which, after a fusion, there is scope in almost every department of a bank's activities, and which largely influences directors when the advisability of amalgamation is being considered.

In addition to those general incentives to amalgamation of which the growth of the joint stock movement and the smaller proportionate expense of working are but a few out of many examples, there is a set of causes at work peculiar to banking business. A very common form of the amalgamation movement has been the absorption, by a large provincial bank or group of banks, of an old-established but comparatively small London clearing business. In opening negotiations to this end, one of the strongest motives for union appears to be the desire of the provincial bank to get a footing in London and in the clearing house, with its concomitant status and conveniences. The claim of London to be the financial capital of the world is by no means so undisputed as it was a quarter of a century ago, but it can still be maintained, and so long as this is the case it will remain an object of ambition for provincial banks to obtain

that representation in London which will enable them to compete for a share in the huge international business which London still transacts. It would be hopeless for a country bank, represented in the metropolis only by an agent, to attempt to attract any part of the great volume of profitable foreign business which the big London banks are able to command, but it is quite possible for such a bank, through a judicious amalgamation, to obtain at once a nucleus of such business, with the opportunity of expansion, in addition to the well-known advantages which the London clearing bankers enjoy. What is true of London applies to some extent to other leading cities, and the wish to acquire the benefits arising from direct representation in large commercial centres is a factor in recent combinations which ought not to be ignored.

An influence which has rendered fusion desirable in some cases, and almost imperative in others, is the growing demand on the part of the general and commercial public for greater publicity and for large capitals in matters relating to banking. There was a time when people did not much care to know either the extent of their banker's resources or the use he made of the money entrusted to his care. He had been their banker for many years, perhaps their father's before them; he was known to be wealthy; he never failed to honour their drafts when presented, or to accommodate them with a loan when required; and that sufficed. But we have changed all that. Another generation has arisen which does not regard old standing as a sufficient guarantee for future solidity, but demands publicity in the shape of

periodical balance sheets, and security in the form of large capitals and reserves. In addition to this outside pressure upon banks, influences tending in the same direction have been busily at work from within, inasmuch as a large capital, known to be well invested, constitutes the best claim to public support which a bank can possibly possess. Regarded in one light, this particular motive to amalgamation is one which banking shares with many forms of retail business. What removes it effectually from that category for the purpose of the present inquiry is the fundamental difference in the relation of the parties that, whereas in trade the customer is the debtor and the firm with which he deals the creditor, and so the standing of the firm is a matter of comparative indifference, in the case of the enormous majority of bank customers the position is reversed, and the standing of the banker becomes a matter of supreme importance.

As the outcome of these causes, then, and of others which might be considered if space permitted, we have now in this country a banking system of which the main feature is the increasing concentration of business into the hands of a comparatively few powerful and economically worked joint stock banks with large resources and numerous ramifications, and one feels naturally curious to ascertain if possible to what further results this change of structure is leading and likely to lead. It is not altogether easy to trace these results, for things have not as yet thoroughly settled down, and some of the new forces brought into operation have not had time to develop, but it is quite possible to gather, from various indications already afforded, some general effects of the

change. From a sentimental standpoint some of its minor and incidental results are to be regretted. The absorption of the old private banks, with their distinctive associations and customs; the imminent disappearance of the private banker, with his inherited and long-standing interest in the personal welfare of the members of his staff; and the reduction to one sombre and uniform dead level of a business already sufficiently monotonous, are not changes which can be regarded with unmixed satisfaction. It is, however, from the standpoint of utility rather than of sentiment that this movement has to be considered, and the questions to which an answer is sought are: What is the tendency of its operation with regard to banking business itself and with regard to the services which that business renders to the public?

It has been suggested that when the various economies resulting from amalgamation have had time to take effect, and when the banks get the full benefit arising from the employment of their larger available resources, banking should become more profitable, and dividends should rise. This sounds fairly plausible, but is not at all likely to happen. Ever-increasing competition will prevent that, but, nevertheless, the tendency to fusion has not been and will not be without effect on profits, the reason for its being less powerful hitherto than might have been expected being that its action has been counterbalanced by antagonistic tendencies of which by far the most powerful has been the rapidly growing adoption, from motives first of desirability and later of self-defence, of the joint stock principle in commerce and manufactures. The tendency to joint stock,

which makes for economy when it acts on banking from within, makes in precisely the opposite direction when it touches banking from without. The amount of work imposed upon a bank by the conversion of a customer's business from a private firm to a limited company is very great, and in most cases altogether out of proportion to any resulting advantage. After it is launched, too, the business gives far more trouble as a company than it did as a private concern, witness, as merely one illustration, the difference in the trouble given by the old method of dividing profits by means of two or three quarterly cheques, and the new method of distributing them by means of hundreds or thousands of dividend warrants, every one of which has to be entered at least ten times, and sometimes more, by the receiving and paying bankers between them before it finds its way back to the company. Bankers nowadays have to be content to render an increasing service to the public for a remuneration which does not increase, and it is this which helps to take away in one direction what amalgamation saves in another. It will be obvious, however, that the economies arising from amalgamation constitute an element not to be despised in counteracting for a time the action of such influences as the growth of banking work and any decline in lending rates.

More important, however, than its relations to banking work and profits is the influence which this movement is exerting on the interests of the community at large. One effect which currency students will note with interest is the further advance which it has already accomplished towards the eventual extinction of private note issues. By amalgamating with

London banks, provincial institutions forego their right to issue notes, and the Bank of England, under a well-known provision of the Bank Act, acquires the right to increase its existing issues to the extent of two-thirds of the lapsed circulation. In this way the process of centralization among banks themselves is accentuating the centralization of that power to issue notes which in this country was once, and in many States still is, the most important of banking functions.

Apprehension has been expressed in some quarters lest the rapid decrease in the number of banks resulting from the fusions of the last few years should lead to something in the nature of a banking monopoly; that the conveniences now afforded by banks may be restricted; and that we may even see a "corner" in loans. This fear is surely chimerical. It is true that banking is getting into the control of fewer hands, and that the difficulties in the way of establishing new banks are so great as to be almost insuperable, but there are some banks which will never amalgamate, and there is no more likelihood of a cessation of competition among the surviving concerns than in the case of any other class of commercial institutions. So long as this healthy competition in banking business is maintained, the public will always be able to retain such banking facilities as it now enjoys, and to secure others as time goes on. A few important banks, with the command of large funds and worked with the utmost economy and efficiency, seem likely to afford greater facilities, and to hold a far stronger position in the estimation of the community, than the large number of smaller and weaker institutions which they are so rapidly replacing.

CHAPTER V.

BANK AMALGAMATIONS.

2. SOME PRACTICAL CONSIDERATIONS (*a*).

IF you want to extend a banking business, you may do it in either of two ways: you may open branches in new or insufficiently banked districts, and gradually work them up; or, by amalgamating with other concerns, you may acquire a number of branches "ready-made" and in working order. In the slow-going generation which preceded our own, the former was the method of extension most frequently adopted, but by many present-day bankers it is found to be too slow. They regard the process of "waiting" as tedious. They like to see the business of the institutions with which they are connected increasing by leaps and bounds, and consequently, while not altogether discarding the older method, they prefer the method of amalgamation, by which they secure a number of offices at one stroke, and infuse into them fresh vigour and new capital. The movement is suggestive in many ways, and deserves, from several

(*a*) From the *Bankers' Magazine*. (Written after the writer entered the General Manager's Department of an "amalgamating" bank.)

standpoints, more than the passing notice which is all it has hitherto received.

THE SHAREHOLDER'S STANDPOINT.

A point which must have struck every banker in connection with the amalgamations of recent years is the manner in which as a rule shareholders, both of the absorbed and the absorbing institutions, acquiesce without the least demur in the provisional arrangements for fusion made on their behalf by their directors. Meetings of shareholders called with a view to carrying through amalgamations are almost always purely formal; so much so that at times—although this is the case rather with the confirmatory than with the first meeting—there are well-founded doubts in the official mind as to whether there will be a sufficiently large attendance of shareholders to form a quorum.

There is a reason for this acquiescence, apart from the natural tendency of shareholders, banking and otherwise, to follow the lead of the directors whom they have appointed to look after their interests, and who, having themselves a large interest at stake, may be presumed to have weighed very carefully the desirability of the step before recommending their constituents to take it. That reason is, that in every well-planned amalgamation, each of the parties to the contract supplies some element which the other lacks. Take an instance which, with one very recent exception, probably caused as much surprise, when the rumour of it first got about, as any amalgamation of modern times—the absorption of the City Bank by the London and Midland. There was really no occasion for surprise. Here were two banks—one having a large

London and suburban connection, but no country branches; the other with a comparatively insignificant London business, but a network of branches and a large connection in the Midlands particularly and the provinces generally. One with a Stock Exchange and foreign connection; the other with practically neither, but with other compensating contributions to the general good. Take again, simply as examples of mutual advantage, the absorptions which brought Lloyds from Birmingham and Parr's from Lancashire to London. Each of these amalgamations gave a rising but till then purely provincial bank a foothold in London, a seat in the Clearing House, and valuable and old-established London connections; whilst the firms absorbed, in addition to the pecuniary equivalents presumably received by themselves for their businesses, were able to furnish their clients with the additional security and facilities which can only be afforded by large concerns with published balance-sheets, large uncalled capital, and surplus funds running into millions. Whatever the disparity in size and importance between absorber and absorbed, the same principle holds good. Each bank brings to the coalition an element which strengthens the institution as a whole —a missing link in the chain of business connections; a footing in a fresh commercial centre; the command over larger resources, or other equivalent.

A further consideration, which greatly facilitates the passage of amalgamation resolutions, so far as the smaller of the two amalgamating businesses is concerned, is one which weighs with shareholders more than any other—the direct and immediate financial inducement. In practically every instance where the

bank taken over is a joint stock company, the announcement, and even the mere rumour, of an impending amalgamation sends up the value of its shares, so that shareholders who sell obtain a substantial bonus, while those who exchange their holdings for shares in the other bank obtain a security which is not only more marketable, but more valuable. The shareholder of the smaller bank gains in pocket; the shareholder of the larger concern in fresh business and greater *prestige*. The advantage is mutual. When these considerations are borne in mind, one ceases to wonder that amalgamations, once provisionally arranged, practically always go through with general approval.

Preliminary and confirmatory meetings over, we arrive at the stage at which the amalgamation is an accomplished fact, and it is with this stage—that which immediately follows the actual fusion—that we are here most concerned, because it constitutes the most practical part of the subject. The period of courtship—the most interesting stage of all—is over; the union has been legally effected; hope and speculation as to the future give way to actual experience; and the outcome of the whole transaction may be looked at in an everyday light by the various parties affected.

THE POINT OF VIEW OF THE STAFF.

First in order among these as a matter of personal interest, though not of intrinsic importance, are the staffs of the banks concerned. One of the first questions which arise in purely banking circles in connection with every amalgamation is: How will it

affect the staff? This is, of course, a question which cannot be answered in general terms, especially the financial part of it; but, as regards the non-financial part, we think we are not going too far when we say that the apprehensions which an amalgamation so frequently excites in the minds of the managers and staffs of banks which have been just taken over are generally groundless, and, when not groundless, exaggerated.

As regards managers, accountants, and other officials, there is, it is true, the necessity, always irksome, of getting used to a new system; of conforming to regulations and making returns which appear useless or superfluous; of having to put up, generally, with more "red tape." A good deal of information as to the means and resources of borrowers, which has, perhaps for generations, been a matter of oral tradition only, handed down from one manager to another, has now to be put in black and white, and in that form (in which, be it noted, it never looks so convincing) submitted to the judgment of critical head-office officials, and so on. The period of transition once over, however—and that period, let us at once admit, is always exceedingly disagreeable—things begin to settle down wonderfully soon, and would settle down a great deal sooner if more English banks would follow the example of the Scotch banks, and issue a confidential printed book of instructions to every manager. To the manager of ability, too, the new service offers opportunities which could never have arisen under the more limited *régime.* The tact which characterizes the able administrator of an annexed province is

found to characterize all the best administrators of absorbed banks. Once the concerns are made one, the prizes of the whole service are open to every man of sufficient ability to take them, irrespective of the section of the service to which he may have originally belonged. With an extended area, too, the chances of the "square man" remaining in the "round hole" are lessened, for there are more holes of all shapes, and a judicious transfer, impossible in a limited area, is possible and often practicable in a large service. This applies also to the rank and file; to the men who have their way to make. It is true that at first these suffer under the disadvantage of not being known, but that is a matter which is speedily rectified, and, after a while, an experienced chief inspector can "place" the members of the staff of the acquired bank, both in comparison with each other and with his own men, with as much nicety as the handicappers of a tennis tournament or golfing competition are able to gauge the capacity of the men whom they are asked to classify. As for red tape, every one knows that in a large organization there must inevitably be more machinery and less of the personal equation than in a small business, and sensible men among staffs which have been taken over, whether they be managers or clerks, recognize this and act accordingly, leaving the fools to kick against the pricks. As a general rule, it may be taken that members of the staff who were only marking time under the old order of things, are in no worse case under the new, whilst the opportunities open to able men are considerably increased.

HOW CUSTOMERS ARE AFFECTED.

Much more might be said on the question of staff, which really deserves an article to itself, but a regard for the perspective of our subject leads us to hasten on to another section of those affected—the customers of the absorbed bank. What is their position, and what effect has amalgamation upon them? It is this aspect of the matter, of course, in which the general public has the deepest concern.

As the large majority of customers of every bank are depositors only, the sole differences which these see are the alteration of name on the bank's doors and in their cheque books. The difference which they do not see is that their deposits are now safer than ever, owing to the greater strength of the "taking-over" bank. Otherwise things go on, as between themselves and the bank, precisely as before. Their credits are received and their cheques paid by the same cashiers, who chat to them on the same subjects, and are not less obliging than of yore. Their difficulties are laid before the same manager, who is as ready as ever to place his advice and assistance at their disposal.

But there remain the borrowing customers, and these, naturally, are the section who will feel the effect of the change if any section will, because, immediately after amalgamation, and at stated periods thereafter, every advance at a branch is overhauled by the head office. Here again the amalgamator who is "born" is at once distinguishable from the amalgamator who is "made." The head-office officials, who have had considerable experience of amalgamations, and who wish not only to get fresh business but to retain the

old, deal very leniently with the borrowing customers of the absorbed institution. It is found that many of the purely provincial banks pay a less rigid attention to the proper completion of securities than the big London banks with ramifications in the provinces. Sometimes they are a little lax in getting completed transfers, giving notice of lien, ascertaining surrender values, and matters of that kind. The new head office rightly sees to it that such omissions are rectified, and also, of necessity, puts customers to the trouble involved in assenting to the new arrangement, but it does not start calling in advances right and left on the ground that the security appears in some cases to be insufficient and in others to be of a kind which it might not be disposed itself to take if it were offered in connection with a fresh advance. There are skeletons in the cupboards of most small banks, but these, under modern conditions, are revealed and allowed for at the preliminary examination of accounts which precedes amalgamation, and it may be taken for granted that the head office is fairly well satisfied with the outstanding advances of the smaller bank, otherwise it would have broken off negotiations at an earlier stage. The better course, therefore, and the course almost universally adopted in ordinary cases, is to so arrange that borrowers shall feel the change of management as little as may be. It is quite possible that in some instances unsecured accommodation is granted with a more sparing hand and with greater discrimination, but this is counterbalanced in another way, which is worthy of notice. It has frequently happened that a thoroughly sound but comparatively small bank has been asked by a large and powerful

local company or corporation for accommodation, secured or otherwise, for a limited period. The interest which the would-be borrowers are willing to pay is adequate, their standing undoubted, and the request for an advance such as no banker possessing the means to satisfy it would hesitate to entertain. But this matter of ways and means is just where the local bank finds itself in a difficulty. It has not sufficient funds at its disposal to enable it to make the required advance, so the business has to be declined, and very often the account is lost. After amalgamation with a bank with a large capital difficulties of this sort cease, and borrowers who are undoubted can have as much money as they may reasonably ask.

It would appear, then, with regard to borrowing clients of amalgamated banks, that although occasionally friction may arise through requests from the bank for securities to be properly completed, and although the borrower whose financial position is not particularly strong and whose advance is unsecured, or whose accommodation is unduly large, may in time find his facilities restricted, the larger funds at the disposal of the concern as a whole are distinctly favourable to good borrowers; and with regard to customers who simply have current and deposit accounts, it would seem that, speaking generally, equal facilities and greater security are given.

CHAPTER VI.

THE "MIDDLEMAN" IN FINANCE.

An Essay on the Functions of the Banker, the Bill-broker, the Stockbroker and Jobber, the Trust Company, and the "Issuing House" (*a*).

I. INTRODUCTORY.

THREATENED men, it is said, live long, and the survival of the "middleman" certainly lends support to the assertion. In some departments of affairs, it is true, the tendency of the times is proving too powerful for him, and he is steadily losing ground; but in finance, on the whole, he contrives to hold his own, and in some instances even to strengthen his position; and this, too, often in the teeth of fiercest criticism. The banker, for example, whose alleged shortcomings and misdeeds are so numerous that a recent critic has given up all hope of reforming him, and suggests that the public should fall back on the "old stocking" as a better receptacle for superfluous funds, shows an amount of vitality which must give great annoyance to his assailants. Not a year passes but he adds to his functions and enlarges the sphere

(*a*) From the *Economic Journal.*

of his influence, and, notwithstanding trade stagnation and agricultural depression, continues to distribute substantial dividends. The bill-broker, too, who is regarded in some quarters as a superfluous appendage of the banker, and has been dubbed in others "the parasite of a parasite," still finds opportunities in plenty for the exercise of his highly specialized skill, and if one may judge from the published statements and declared dividends of the leading discount houses, shows little sign of coming decadence. The dealer in stocks and shares, whether broker or jobber, who for some time past has had to bear the brunt of the critical onslaught, has managed on the whole, despite bad times, to secure a very fair income from the business, the members of the London Stock Exchange alone (according to an estimate quoted by the late Mr. Arthur Ellis at a time when the volume of transactions was greatly reduced) dividing four millions per annum amongst them. So, too, with others of the tribe. Even the loan-monger and the trust company promoter, who for a few years from 1890 seemed almost to be extinct, turned out to have been only temporarily exorcised from the body politic, and returned to find their old haunts swept and garnished. It is into the *raison d'être* and the efficiency of these various types of financial Go-between that the present inquiry is directed. Is the outcome of their operations beneficial, or the reverse? Are we, so far as finance is concerned, to share the view of those who regard the middleman as the author of half the economic ills which flesh is heir to, or shall we agree with that section of the community which regards the exercise

of his functions as constituting in the main a legitimate and beneficial application of the principle of the division of labour?

II. THE BANKER.

Even in the limited realm of pure finance the middleman is Protean, but of his many guises that of the banker is the most familiar, and in it he is perhaps least open to attack. Apart altogether from the thousand-and-one services now rendered by the banker in this country, he can well afford to stand or fall by what has come to be generally recognized as his main economic function, that of lending the money of the many who cannot use it to the few who can. With one hand he collects into a central fund the small and scattered sums which would otherwise be lying unproductive in their owner's care; with the other he distributes them judiciously among those who know how to employ them to advantage. By his mediation, the one class is relieved from anxiety as to the custody of its spare capital; the other is enabled to put that capital to productive uses. Borrowers and lenders are thus both benefited; the banker makes his living; and the wealth of the whole community is multiplied.

The case for the banker, put in this form, is a strong one, and when his services in other directions are also thrown into the scale—services which need not be referred to in detail, since they are familiar to all—one feels that the faults of the system must indeed be great if they are to be regarded as outweighing its undeniable advantages. It is not

proposed here to deal with socialistic objections which would render all banking, as we understand the term, impossible, or with criticism of incidental and detached details of banking policy. It is the main function of the banker which it is sought to keep in view—the intermediary function—and it is in immediate connection with this that a real grievance is beginning to be pointed out. Those who urge it find no particular fault with banking in this country so far as it goes; they simply complain that it does not go far enough. They suggest that the services at present rendered by the banker to the "classes" (using the term in the most elastic sense) might with advantage be extended to the "masses"; that greatly as we pride ourselves as a nation upon the perfection to which our banking system has attained, we are yet out-distanced in the matter of really democratic banking institutions by States which we are accustomed to regard, and with some degree of reason, as far less advanced than ourselves in matters of commerce and finance. A criticism of this kind, partly based upon the success of the Scotch Cash Credit system of capitalizing honestly, and partly upon the advantages which have accrued in a similar direction from the establishment of People's Banks on the Continent, is not to be lightly dismissed, and may be shown to contain a considerable element of truth. From the standpoint of clients of the upper and middle class, our present system of banking leaves very little to be desired. The enormous development of the branch-system, with all its attendant conveniences, enables the depositor to enjoy practically every facility which he can reasonably demand; while the only small

grievance occasionally alleged by the borrower (in London) is that when he wishes to effect a loan he cannot in some cases do so by small instalments, paying interest only upon the amount daily outstanding against him, as he could north of the Tweed, but must, as a rule, borrow and pay interest upon a lump sum which he may only need to withdraw in small amounts and at various times. But if we descend to a lower industrial and social stratum than that usually served by the banker, what do we find? Here again the depositor is fairly well off. Savings banks—Post Office or Trustee—will take charge of his savings and give him a fair rate of interest, besides according him other advantages. But the small borrower or would-be borrower in the same social grade is not so well catered for. The poor but thrifty man of the small farmer or the small trader type, who cannot afford to keep a banking account, is left out in the cold, though a little addition to his working capital may be, and in very many instances actually is, all that is needed to transform his occupation from one of a hand-to-mouth character to one of profit and comparative comfort. Ordinary banking stops just short of him. It cannot be troubled with his small requirements, and would in any case demand a form of security which it is not in his power to offer. The Government Savings Bank system cannot help him, since it is essentially and advisedly one-sided, being allowed to take deposits, but being also, and very properly, prohibited from lending in any form. Here, surely, so far as this country is concerned, is an almost unexplored field for a new form of middleman; an intermediary, or rather an organized group of local intermediaries,

whose functions shall be to encourage the industrial and agricultural operations of thrifty members of the lower classes in town and country by means of small loans, the funds for the purpose being obtained partly from the savings of members of the same class, and partly from existing banks. If the feasibility of such a *modus operandi* be doubted, or if fuller information be desired, let the reader turn to the readily available records of the operation of banks worked on similar lines and on a very large scale in Germany, Italy, and other parts of the Continent. In these countries it has been shown that the system, notwithstanding the *à priori* drawback that it was "made in Germany," is both practicable and safe; it has proved an immense boon to the classes for which its machinery is specially adapted, and so far from interfering with existing banks, it has provided them with an additional source of revenue, since in many instances a part of the funds lent by the "People's Banks" to small borrowers has been obtained from the ordinary banker. This last point is specially worthy of notice in considering the applicability of the system to England, since the safe and profitable employment of their huge and growing accumulation of deposits constitutes by no means the least difficult problem which the bankers of this country have to face.

Summing up, then, the foregoing remarks upon the banker, it may safely be affirmed that with business and society organized upon their present basis, the banker's position is secure. His methods may be open to criticism in some respects; his good offices may also need to be supplemented by organizations which, whilst indirectly helping him, shall directly

benefit a wider circle than that which he now serves, but the service which he renders in the discharge of his main function would alone appear to suffice to justify a continuance of his existence.

III. THE BILL-BROKER.

The bill-broker, whose position in this inquiry is logically next to the banker, affords a far more striking illustration of the modern tendency to extreme specialization. In the foregoing remarks the banker has, for the sake of simplicity, been represented as the one middle link in a chain, with the lender on one side and the borrower on the other. In actual practice, it will be found that the bill-broker constitutes an additional link, and that his place is between the banker and the commercial borrower. To the uninitiated the world of finance presents few more curious puzzles than the existence, side by side with banking, of bill-discounting on a large scale as a distinct and special business. Discounting bills is a recognized and integral part of a banker's function, and yet we find a large number of individuals and companies, not bankers, who make a living out of it, and the mystery is not lessened by the further fact that the funds which enable bill-brokers to compete successfully with bankers in this particular line are largely supplied to them by bankers themselves, who are in the habit of lending to brokers, at very low rates, that portion of their funds which they wish to have within easy call. The explanation, however, is not difficult. In discounting bills, it is of the highest importance that the discounter shall know who can be trusted and

who cannot. He must be well acquainted with the credit of the firms and individuals whose names appear on the acceptances which are offered him. Now, this acquaintance with the "standing of parties" is only one of the multifarious occupations of the banker, whereas it is practically the sole concern of the bill-broker, whose concentration of attention on this one branch of business gives him the advantage which special knowledge will always impart, so that he is able not only to find out where good bills are to be obtained, but to take them on more favourable terms. The bills so discounted are generally either re-discounted with a banker, or deposited with him as security for advances, so that the broker renders a double service. Merchants get the advantage of lower discount rates, and the banker gets a profit on the re-discount or the loan, besides finding in the broker a convenient channel for the temporary disposal of his superfluous cash. The slight difference between the rate at which the broker discounts his bills, and that at which he re-discounts them, might seem to be so much loss to the banker, who might otherwise do the business directly; but as a matter of actual experience it is more than compensated by the trouble and responsibility saved to the banker, by the guarantee of the broker, and by the fact that through the broker's activity a large number of bills find their way to the banker which would otherwise not reach his hands at all.

The system, of course, has not escaped criticism. Bankers themselves indulge in an occasional grumble, and the suggestion is made that the banks should unite with a view to establish a discount company of

their own, and so recoup themselves in one direction for their losses in another. The Bank of England, too, has a standing grievance against bill-brokers, inasmuch as, unlike the other banks, it has no occasion whatever to avail itself of their services, and is yet expected, in periods of storm and stress, to help them out of their troubles by means of large advances. With neither of these domestic differences need we burden ourselves here. The only aspect of all these matters which it is here professed to deal with is the public aspect. They are regarded from the standpoint of their effect on the community at large, and from that standpoint the *rôle* of the bill-broker appears to be in the main a useful one. Like all systems, that in which the broker is the central figure has its weak points, of which the chief is, as already indicated, the manner in which it acts in periods of financial mistrust and *malaise*. Keeping no reserve himself, the broker is compelled at such times, when bankers withdraw their funds, to fall back upon the Bank, and so accentuate the strain upon the central reserve at the most inopportune juncture. In discussing the utility of the bill-broker, therefore, the question is, Does this undoubted but very rarely occurring risk involved in the working of the system—a risk, by the way, which it has been shown could be partly done away with if non-banking depositors could be induced to leave their money with brokers for longer periods—counterbalance the advantages which undoubtedly accrue from it? Such a question is essentially difficult, but one feels that the reply should be a negative one. The services rendered by the bill-broker are, from the nature of the case, quite secondary to those for which

the public is indebted to the banker, and are also, as we have seen, attended with a certain amount of compensatory risk in times of pressure; but those services are none the less real, and the disappearance of the bill-broker from the money market would entail considerable inconvenience and not inconsiderable loss both upon the commercial houses which are now saved trouble and expense by his efforts, and upon the banker in dependence upon whom he lives.

IV. THE STOCKBROKER AND JOBBER.

Turning now from Lombard Street to Capel Court, the next variety of middleman to claim attention is the large class through whose instrumentality the purchase and sale of stocks and shares are effected; the stockbroker, "inside" and "outside," and the jobber or dealer. It would be interesting at the outset if one could stay to examine into the justice of the complaints which have been freely made by members of the Stock Exchange, who pay heavy fees for their privilege of membership, and are not allowed to advertise, against those brokers who are not members of "the House," but who contrive, by dint of extensive and persistent advertising, to secure a considerable amount of stock-broking business of a certain kind. Such an examination into the comparative merits of the Stock Exchange and the "Bucket-shop," however, is unnecessary for the purposes of this paper, and might, too, suggest to the cynical the old controversy on the points of difference between Hesiod's Tartarus and Milton's Hell. So far as this inquiry is concerned, it matters not whether the broker be or be not a member of the Stock

Exchange. The points to be raised and dealt with here are whether the services of an intermediary are needed in the purchase and sale of securities by the public; and if so, whether the method at present adopted for bringing buyers and sellers into eventual contact can be regarded as satisfactory.

On the first of these points there is practically no controversy. It is realized on all hands that there are a great many matters in which the services of a go-between could be more easily dispensed with than in transactions in stocks and shares. The really debatable question is not whether a go-between of some kind is needed, but whether there is a real necessity for two distinct kinds of go-between; whether the broker and the jobber are *both* required; and as an agent of some sort is obviously desirable, and the public comes in contact with the broker, the controversy is narrowed down to an inquiry into the *raison d'être* of the jobber. In conformity with a tendency now fashionable, the jobber might seek to contract himself out of the reach of this inquiry by taking the ground that in many instances he is not the middleman at all; that he stands on a higher plane altogether, and is one of two principals, the individual who wishes to buy or sell being the other, and the broker the real intermediary. In many individual cases, where, for example, jobbers themselves hold considerable quantities of stock, this contention would be fully justified. The jobber sells, the investor buys, and the broker is the medium of communication. But from a more general standpoint, it is the jobber who is the middleman. Taking ordinary investment business, and ignoring, as foreign to the present inquiry, purely

speculative transactions between members of the House, the public which deals in stocks and shares are obviously divided into two classes. There are those whose object is to sell; there are those who wish to buy. Each class employs a broker to effect its purpose, and as the jobber is the one to whom the brokers of each apply for a quotation, it is not difficult to see that generally speaking it is the jobber who occupies the position of middleman.

This being so, we are once more brought face to face with the jobber, but the sins which are currently laid at his door are so numerous that the difficulty is to know where to commence. We are told that he cannot be indispensable, since other large Bourses manage admirably without him; that investors not only have to pay the broker's commission, but also the jobber's "turn," and that while the commission is fairly earned, the amount of the "turn" is often out of all proportion to the service rendered. The difficulty sometimes experienced in getting delivery from jobbers is enlarged upon, and when it is pointed out to those who make this complaint that the rules of the Stock Exchange provide for such a contingency, it is broadly hinted that, on the principle of "honour among thieves," jobbers hang together in such a way as to render the "buying in" penalty inoperative. Other objections might be cited, but these may be taken as fairly representative, and in dealing with them one or two preliminary observations suggest themselves.

In the first place, it may be noted that the usages of foreign Bourses cannot at all fairly be cited as models for us to copy. We have recently been told that "Englishmen are the milch-cows of the world,"

and a natural consequence of this is seen in the immense difference, both in volume and variety, between the business of our Stock Exchange and that of Continental Bourses. With regard to the payment of a double commission, one wonders whether those who object to such payment are consistent enough ever to protest against the amount of their tradesmen's bills on the ground that the prices there charged include the profit of the warehouseman in addition to that of the retailer; while on the further question as to whether the services of the jobber are worth what is paid for them, it is extremely doubtful whether investors realize, or even know, the risk of being "left" which the jobber runs in many cases when he comes to "undo" his bargain; a risk consequent upon his not knowing, when he makes a price for the broker, whether the transaction is to be a purchase or a sale. Then, too, while it is undeniable that jobbers sometimes enter into contracts which they are unable to carry out immediately, and while it may be further admitted that the adequacy of the available remedy is open to dispute, it must in fairness be pointed out that it is only in the case of the more out-of-the-way and tightly held securities that the grievance arises; and that it is scarcely reasonable to expect that certain descriptions of foreign bonds, or railway preference stock, or other purchases of a like kind, shall be quite as readily forthcoming as a line of Consols.

Probably, however, the value of the jobber's function may be better appraised, not by discussing in detail his shortcomings, but by imagining what would be the result if he were dispensed with altogether. Under the existing arrangement the Stock Exchange, as

every one knows, is organized into markets for the various descriptions of stock, and it is the dealers or jobbers who constitute these markets. There is the Consol market, the American market, the Mining market, the English Railway market, and so on, and the broker who is commissioned to buy or sell for a client a particular kind of security knows at once and exactly where to go to find the jobbers who will make a quotation in that security. This alone is a great saving of time and trouble, and constitutes a convenience to brokers and investors very similar to that afforded to bankers by the operations of the Clearing House. Do away with the jobber, and what will the broker do? The jobber, it must be remembered, makes a particular market his special study. The broker, on the other hand, deals in securities of every description, and consequently when he wants to buy or sell, he must (the jobber being eliminated) communicate with every other broker in the House until he comes across one who happens to want to deal the other way; and if, as would often occur in the case of securities not often dealt in, he cannot find such a one, a considerable period may very possibly elapse before the transaction can be closed; whereas, by the assistance of the jobber, it could have been concluded in a few minutes. But this is not all. In addition to the question of time and convenience, there is the question of price. For all practical purposes, jobbers are a body of men always willing to buy and always willing to sell. If the jobber were abolished, it would speedily be found that buyers desirous of buying at once, and sellers anxious for immediate realization, would have to make considerable sacrifices in the matter of price

before they could attain their object. Fluctuations in prices would thus occur with greater frequency and greater violence, and the element of pure speculation and uncertainty, already quite powerful enough, would be still further increased. This statement is here put forth in full knowledge of the fact that Stock Exchange combinations are often formed for the express purpose of raising or depressing the price of particular securities, for it is held that the fluctuations caused by the adoption of such means, though by no means insignificant actually, are yet not to be compared with those which would inevitably occur if there were no jobbers in the market at all. The most distinctive and important services required of the dealer or middleman in any department of affairs, whether his business be in shares or in goods, on the Stock Exchange or in the produce markets, are that his intervention shall reduce to a minimum the number and violence of fluctuations in price, and that he shall be the medium for effecting the greatest economy in bringing buyers and sellers into communication. If the view here taken be a correct one, the middleman of the Stock Exchange, despite his minor failings, may fairly claim that he performs both services, and that the amount of the jobber's turn represents the price paid by the community for the invaluable privilege of close prices and a continuously free market for securities; a combination of characteristics which has led every economist in search of the best available illustration of a perfect market to quote the instance of the London Stock Exchange.

V. THE TRUST COMPANY.

Venturing now still farther, but more briefly, into controversial matters, we come to the financial "Trust Company," a form of go-between which is at the present time not much in evidence. One fact should be borne in mind before we join in the chorus of wholesale condemnation which the Trust Company revelations of the early 'nineties provoked. It is, that all companies of this kind are not, as one is sometimes led to suppose, equally bad; they are not all tarred with the same brush. There are Trust Companies and Trust Companies. There are those which, established on a sound basis and intelligently directed, fulfil the highly useful function which such combinations were originally intended for, that of spreading capital over a large variety of securities, and so equalizing both risks and dividends for shareholders. There are others of which the inception has been a fraud, the management a bungle, and the operations almost entirely outside the recognized sphere of such concerns. Both kinds of company have suffered severely, but they must not on that account be confused with each other, nor must the one kind be deprived of public confidence and debarred from the exercise of its proper function because that confidence has been abused and that function exceeded by the other. Nothing could be more rational or less open to attack than the ordinary business of a Trust Company, as it has been briefly described above. What is really reprehensible, and what has led to the downfall of many of these companies, is that they have not been content with regular methods and ordinary profits.

With the object of making big dividends, and largely as a direct consequence of the system of "founders' shares"—a system which has had the obvious effect of encouraging any kind of business offering a large and immediate profit—they have in many cases relegated their principal function to quite a secondary place, and gone in wildly for promoting and underwriting. One of their favourite devices has been the promotion of kindred companies which have appeared at first sight to be rivals, but which have been really established for the purpose of relieving the older concerns of blocks of unsaleable securities; whilst other companies yet seem to have been called into existence for the express though not expressed purpose of enabling the directors and their personal connections to dispose of similar worthless rubbish. Obviously, these practices could not go on for ever. So long as prices were maintained, and both founders and shareholders realized large profits, all went well. With the collapse of prices, one company after another toppled down, some being irretrievably ruined and the remainder much discredited. The lesson to be derived from this is not that all these companies are frauds, or that the main object for which they exist—the spreading of risks and profits—is unattainable. The real moral of the Trust Company difficulties of thirteen or fourteen years ago is rather that such companies should mend their ways. They should exercise more care in the choice of their directors, confine their attention to their legitimate business, do less "log-rolling" with other companies, and leave the task of company-promoting to those who have less capital to risk.

VI. THE "ISSUING HOUSE."

The advice here tendered to the Trust Companies to keep to their legitimate *métier* applies equally to the last kind of financial intermediary to whom space will permit a passing reference, namely, the loan-monger; the medium through whom, in practice, foreign Governments and corporations borrow from this country, and through whom, in theory, they pay their dividends. To realize the magnitude of the advantage accruing from this form of mediation, one has only to recall in the first instance Macaulay's graphic picture of the Chancellor of the Exchequer, in by-gone days, "going hat in hand up and down Cheapside and Cornhill, attended by the Lord Mayor and the Aldermen, borrowing a hundred pounds from this hosier, and two hundred pounds from that ironmonger," and then to remember how, through the good offices of large financial houses, the loans of Governments are effected to-day. A foreign Government wishes to borrow; capitalists in this country are willing to lend; and the two are brought into contact by the agency of a "middleman," who not only effects the transfer from lender to borrower, but saves both parties all the petty details involved both in the main transaction and in the after-payment of dividends. In those instances where the circumstances of the borrower justify the loan, the part thus played by the intermediary is in every way advantageous. He is the legitimate outcome of the situation. The drawback of the system is that in many cases the natural process is reversed. Instead of the desire to borrow calling the middleman into existence, it is the existence of the intermediary

which tempts the borrower. Mr. Bagehot, in one of the many suggestive phrases scattered all through his works, has observed that "we are to half-civilized countries what the London money-dealers are to students at Oxford and Cambridge," and the remark illustrates the present contention exactly. We all know how "opportunity makes the thief," and in many instances it is notorious that the intermediary whose original function was to supply the moderate and legitimate wants of the borrower, becomes a standing temptation to the borrower to go beyond the bounds which prudence and the circumstances of the case would warrant. Is it to be supposed for a moment, for example, that without the mediation of the Barings, or some firm of equally high reputation, South America would have been able to borrow from this country the vast sums which it did before 1890, or that the Australian banking crisis would have attained such proportions as it did if Australia had not, in the words of a prominent Australian banker, been "debauched with British capital," partly through the agency of colonial banks? The object of citing these two instances from the many available is not to suggest that international financial agents are necessarily harmful, or that either they or bankers are unsuitable channels for the transfer of capital from countries where it is plentiful to those where it is scarce. It is simply to urge that the exercise of greater prudence on the part of both borrowers abroad and of lenders at home should keep the operations of such agencies within bounds, and so prevent the abuse of a system the use of which is beneficial to all concerned.

VII. IN CONCLUSION.

The list of financial middlemen sketched out in the foregoing pages lays no claim to completeness, nor is it suggested that the treatment of any one of the classes has been in the least degree exhaustive. All that is claimed is that those varieties of the species which have been touched upon are among the most important, and may be regarded as to some extent typical and explanatory of the remainder; while it is hoped that the characteristics which have been commented upon in each instance are the more salient ones. Enough may perhaps have been said to indicate that the term "middleman," which shares with the words "bourgeois" and "capitalist" the honour of being most frequently on the lips of social reformers of a certain class, is not, so far at any rate as finance is concerned, so opprobrious an epithet as those in whose vocabulary it figures so largely would have us believe. The tendency in the direction of extreme specialization, strong in every sphere, is as pronounced as ever in the world of credit, and the energy fruitlessly spent in denunciation of the intermediary would be often better expended in efforts to reform him. In the language of current politics, the go-between should not be "ended," but "mended"; or, if we may turn to the new theology for an expression, the punishment dealt out to him should be redemptive rather than vindictive. If the Middleman in Finance will confine his energies to his own domain, be content with a moderate profit on the transactions which pass through his hands, and

discharge his double function with due regard to the interests of both parties, he is not likely for a long while yet—so long, at any rate, as commerce is conducted on its present individualistic lines—to find his occupation gone.

CHAPTER VII.

HOW OUR EXPORT TRADE IS FINANCED (*a*).

WE have now to consider the part played by banks in this country's foreign and colonial trade. Of course, all the ramifications of our external trade will not be dealt with. It would be impossible, even if it were desirable, to enumerate all the functions discharged by banks in facilitating international commerce. We shall have to confine ourselves to a few of the more important and typical of the services rendered.

There are, you are well aware, two kinds of document chiefly in use in the financing of foreign and colonial dealings. The first and more important of these is the bill of exchange, and the second is the bill of lading. Without these it is difficult to see how the export and import trade of the country could be carried on, or how it could possibly be financed. Now, I promised to be somewhat elementary in these lectures, but I do not propose, in addressing a business audience in the City of London, to be so elementary

(*a*) A lecture delivered at the London Chamber of Commerce. Reprinted from the *Bankers' Magazine*.

as to explain the nature and functions of a bill of exchange or of a bill of lading. It will suffice to remind you that these two documents, together with a third and subsidiary document, a marine insurance policy or certificate, play a most important part in the payment of international trade indebtedness. The way in which I propose to deal with the subject is not to theorize at all, but to give a few actual and concrete examples of how our external trade is conducted so far as the payment for goods is concerned. Our foreign and colonial trade is, as you know, divided into two great branches: export and import. I propose to begin by going into the question of how the export trade of this country is financed; of the way in which foreign or colonial buyers of British goods manage to effect payment. If we are to be practical, it will be advisable to take a particular class of goods, though you will find that whatever class we take, the processes will be on very much the same lines. Let us take, for our purpose, the case of, say, woollen goods exported from this country to Australia. Here is a merchant in Melbourne who has imported British cloth, and who wants to pay for it. How is he to do this? The simplest way for the colonial buyer to pay for the goods which he is purchasing is to go to a banker in his own district, purchase a draft on that banker's London house or agent, and remit the draft to London. If he purchases a sight draft he will probably have to pay some small commission to the bank for the accommodation. If, as more usually happens, it is a draft at a given period after sight, he may be able to purchase it for its face value. The reason for this is obvious. It is because, in the second

case, the bank gets the use of the money for a longer period.

I begin with the process of buying a bank bill, not because it is the most frequent way of settling debts, but because it is the simplest. There are, so far as the banker is concerned, no shipping documents involved, and there is little trouble to either party. A method much more frequently adopted is for the exporter in London to draw upon the importer in the colonies or abroad. As this is a very frequent way of settling indebtedness, I will ask you to follow the transaction through. We will presume that you are the exporter; that you send one invoice direct to the purchaser; and that you then send to the London office of the Australian bank the bill of exchange in triplicate. Attached to that bill of exchange you send further copies of the invoice for the goods. Also attached to the bill of exchange you send a complete set of the bills of lading. You further attach to the bill the insurance policy in duplicate. In other words, the transaction is effected by means of a documentary bill. All the before-mentioned documents are sent to the London office of the colonial bank, and you instruct that office to request its Melbourne office to hand to the importer, on acceptance (or otherwise, according to circumstances), the various documents which are attached to the bill of exchange. The man who is to receive the goods will be entitled, later on, on accepting the bill, to the documents, and these will enable him to get from the ship the goods which the bill represents. The goods are now on their way to Australia, and the bill and documents are also on their way from the London office of the bank to the

Australian office. What happens on the other side? The Australian bank presents the bill to the drawee (the purchaser; the consignee) for acceptance, and—if so instructed—hands him the shipping documents against his acceptance, to enable him to obtain possession of the goods. The bank holds the accepted bill for the necessary period, say three months, and at maturity presents it to the importer for payment. If it is paid, the proceeds are remitted to the London seller in due course and the transaction is closed.

This is what happens if all goes well, but of course things do not always go well. Several untoward contingencies may occur. Suppose, for example, the purchaser becomes bankrupt before the goods get into his possession. In this case several courses are open for adoption. The banker in Melbourne might, for instance, hold the goods, get them insured against fire, etc., and warehoused (of course in bond, to avoid paying the duty) for the benefit of the shipper, whose telegraphic instructions he would await. The shipper in his reply might instruct the bank to get the goods sold, or to send them back; or he might elect to tell the bank to give possession of the goods to a third person. It will thus be seen that the mediation of the bank gives the merchant an almost gratuitous representation on the other side of the world. There are other contingencies. The ship may sink, or part of the cargo may have to be thrown overboard in order to save the remainder. If we were to go into these very interesting questions it would take us somewhat far afield. We should have to talk about what Lloyds does, and about "general average"; matters which must be familiar to many of you in

business, and also to those of you who attended the recent lectures on Lloyds in connection with this Chamber. I think it is better to ignore these contingencies at the present stage, and simply to keep to the normal cases.

Returning from this digression, let us consider a variation of the last-mentioned method of effecting payment. Here, for example, is a case where a customer on the other side of the world wants the best possible cash terms. You, the exporter, agree to allow him a certain discount for cash. How is he, on the other side of the world, to effect a cash payment? Here, again, the banker fills the gap. The exporter here draws on the purchaser on the other side as before, and the London office of the colonial bank, acting, of course, under instructions from the other side, pays the exporter cash for his bill, less the agreed cash discount.

There is a further variation of the cash payment system — the method of payment by telegraphic transfer. This may happen in the following way. The seller on this side can have the goods shipped. He can telegraph this fact to his agent at the port of destination. He can receive, by wire, particulars as to the state of the market on the other side, and, if conditions should be favourable, he can have the goods sold at once "To Arrive," and receive payment in London forthwith, by telegraph, through a bank. This system of telegraphic transfers is, up to the present at any rate, the high-water mark of expedition and despatch in the matter of payment for exports.

There is another mode very largely in use for the

class of payments which we have in view, and that is, payment through the medium of a letter of credit. In this case the London exporter still draws on the colonial importer, but he draws under a letter of credit from the other side, and the London office of the foreign or colonial bank—if so arranged—hands the exporter the money represented by the goods. There is a variation of the letter of credit method which is worth notice. Under this alternative system a bank abroad will open a credit for a specified amount or limit with a London bank, its agent, in favour of its customer, the foreign merchant. The customer of the foreign bank has, we will say, imported goods from England, and wants to pay for them. How does he do so under this alternative arrangement? It is done as follows: The purchaser abroad sends to the London bank invoices certified as correct. The London bank sends these invoices, with a remittance for the amount, to the manufacturer or exporter in the provinces or elsewhere, and gets a receipt. The receipted invoices are then forwarded to the foreign bank which has established the credit, and the foreign bank hands them to its customer—the foreign purchasing firm. The London bank debits the foreign bank for which it has been acting as agent; such debit being very frequently set off against some credit transaction. The two banks, the one on this side and the one on the other, settle up with each other periodically; the foreign bank settles up with its customer in its own way and at its own time, and everybody is content.

There is another advantage, small it is true, but nevertheless worth mentioning, arising from the mediation of a bank in matters of this kind. If the

shipper in a particular instance has reason to doubt the purchaser's stability, he can and does instruct the bank not to part with the documents against acceptance unless a previous bill has been duly met. A further small incidental advantage of the use of banks in these matters is that it is much cheaper to cable through a bank (which has a code to meet all conceivable financial contingencies) than in any other way. The services rendered by banks in colonial or international trade could easily be further illustrated. Suppose there is a drought in a particular colony: the result is that the farmers cannot pay the tradesmen, and as a consequence of this, the tradesmen cannot, for the time being, meet the drafts which they have accepted. Without the intervention of a bank the bills would simply be dishonoured and returned to London, but, under existing arrangements, the bank on the other side may either renew the bills or take part payment of them and renew the balance. Then again, suppose the colonial or foreign importer does not meet his acceptance and the exporter wants to sue him, the bank is always willing to give the importer the name of a reliable local solicitor who will look after his interests and information as to brokers who may be willing to act in case of need.

Other incidental services are rendered by banks in facilitating export trade transactions. Here is a firm in London, which sends a traveller or representative to any country, say to Japan or Canada or India, to work up a connection. The London bankers of the firm will procure, from the London office of a bank having branches in the countries in question, letters of introduction to the managers of their branches

across the sea. These introductions, especially in new countries, are of the greatest service. The tone of them varies; it will be very flattering, or only somewhat flattering, according to circumstances which every banking man present will well understand. The bank managers on the other side take a lot of trouble on behalf of the bearers of these introductions. The traveller presents his letter. The bank manager begins by giving him general information and answering inquiries as to the stability and standing of local firms. He gives the traveller the names of the best houses in his particular line of business, and will, in some cases, even take the traveller round and introduce him to the particular men in his business whom it will be to his advantage to know. In this and other ways the banker, in addition to the direct and routine services which he is able to render to the export trade of the country, is a very cheap financial agent in all parts of the globe where the exporting houses in whose interest he acts are not directly represented.

CHAPTER VIII.

HOW OUR IMPORT TRADE IS FINANCED (*a*).

IN the last of these lectures we reviewed some aspects of the part played by banks in the export trade. We saw something of the ways in which the colonial or foreign purchaser of British goods effects payment for them. We have now to consider—quite briefly, of course—the other side of the subject: the service rendered by banks to the importer; the manner in which the British importer pays the foreign or colonial producer for the goods he sends to us.

Again it will be well to take concrete examples, and for this purpose I propose to take one or two staple imports. There is, as you know, an immense amount of cotton imported into this country from various parts of the world. What we are going to set ourselves to consider first is, how does Liverpool (which in this particular matter represents England) pay for the cotton which it annually imports, say, for example, from the United States?

To do this properly we shall have to go back to the

(*a*) A lecture delivered at the London Chamber of Commerce. Reprinted from the *Bankers' Magazine.*

beginning of the transaction. We must presuppose that the Liverpool house importing the cotton is represented in one of the cotton centres in the States, say Galveston. In a place of that kind there will be, when purchases have to be made, a partner or agent of the Liverpool house which wants to import the cotton. In dealing with exports we saw that the main thing, both from the exporting and from the banking point of view, is to get the goods represented by some kind of document. Until they are so represented the banker cannot deal with them. The first object, then, of the man in the States who buys the cotton on behalf of his partners or employers in Liverpool is to get the cotton packed and put on a truck at the nearest railway centre, and to get a through bill of lading for it from the railway company. Directly he gets this document he is able to go ahead. The bill of lading which he receives from the railway company specifies the ports from and to which the cotton is to be shipped, and may or may not specify the steamer by which it is to be carried. Having got the cotton on the truck, the agent draws, say, on a Liverpool bank, by arrangement, attaching to the draft the bill of lading and other documents—copy invoice, insurance certificate, etc. He then goes to the local banker, to whom he gives a general letter of hypothecation over the cotton, and the banker gives him cash which will enable him to continue his operations. The Galveston bank forwards the bill of exchange and the attached documents to its agent in London or Liverpool. The agent presents the bill for acceptance to the bank in Liverpool on which it is drawn. The Liverpool bank accepts it "payable in London," retaining the documents against

its acceptance. This is reasonable. The bank, by accepting, has made itself liable for the payment of the bill at maturity, and requires a set-off of some kind. This is represented by the documents for the cotton, and if the bill should not be paid at maturity, the bank is able to sell the goods. Meanwhile the cotton arrives, but the firm to whom it has been consigned cannot get possession of it until it gets possession of the shipping documents, these being, as we have seen, in the possession of the bankers, held against their acceptance. If it be a broker who applies for the documents, the bank gives them up to him on his signing an undertaking to do one of two things. He undertakes that if the cotton be not sold it shall be stored in the name of the bank in an independent warehouse, but that if, on the other hand, the cotton be sold, the proceeds shall be duly handed to the bank within the customary period—ten days. It is the business of the customer in this transaction to see to the insurance, and the letter of hypothecation which the bank takes from the broker states for how much and with whom the insurance has been effected. This, in rough and general outline, is how our cotton imports are financed.

I propose now to consider another class of imports, namely, farm and dairy produce from one of our colonies—Canada, for example. The main lines of the process will by this time be familiar to you. The Canadian exporter of, say, dairy produce, draws on the British importer, and hands to the Canadian banker the original bill of exchange, with the original bill of lading and the insurance certificate attached. These three constitute the ordinary documentary bill. He

also hands to the banker a letter of hypothecation, by which he transfers the documents representing the goods to the bank as security. From the banker he receives the cash represented by the bills, subject to the usual deductions. The Canadian banker sends the bills and documents to the London bank which acts as its agent, and by the following mail (for reasons which will be obvious) he sends duplicate bills of lading attached to the second of exchange. The London banker, on receipt of the unaccepted original bills, sends them to his local agent to be presented for acceptance to the importer, the drawee. According to what his instructions may be, this local agent does one of two things. He either gives up the shipping documents against acceptance of the bill—a course which naturally enables the importer to get immediate possession of the proceeds—or else he gives up the documents against actual payment at or before the maturity of the bill. There is a variation of these two alternatives; a third course, which may be, and often is, adopted. It may not be convenient for the importer to pay the bills before maturity. He may not have sold the produce which they represent. He is then in this difficulty. He wants the documents to enable him to get the stuff from the ship, but he can only get them in exchange for cash; whilst he cannot pay cash until he gets the documents. It is here that the banker steps in and helps to solve the difficulty. The London banker, in sending the bills and documents to his provincial agent, tells him that he may surrender the documents to the drawees on either of two conditions being fulfilled. One of these is the acceptance of the bill by the drawee, accompanied by a banker's guarantee of

payment at maturity; and the other is the acceptance of the bill in the ordinary way, and its return to the banker on the understanding that the acceptor may, if occasion should arise, pay it before it matures. The latter alternative is frequently adopted, the course of the transaction being that the accepted bill, with documents attached, is retained in the country or returned to the London banker, who holds it until the acceptor (to get possession of the produce) takes it up, the banker allowing him "rebate" for paying it before it is due. The rebate rate depends on deposit rate, being generally something over the advertised deposit rates of the London joint stock banks. Here we have an incidental illustration of the wide-reaching effects of the minimum rate of discount of the Bank of England. The Bank rate governs the deposit rate, and the deposit rate governs the rate at which foreign and colonial bills are rebated in London. At the present moment, Bank rate being 3 per cent., deposit rate is 1½ per cent., and the rate for rebate in most cases is 2, or ½ per cent. over deposit rate. Briefly, the rate at which bills are rebated in London usually works out at 1 per cent. below the official minimum of the Bank of England.

And now to touch on a point in connection with marine insurance and the payment of imports. Attached to these bills of exchange representing foreign and colonial produce you will find an insurance certificate. You will also find (from painful experience, if you neglect the precaution) that this certificate, in order to be enforceable in the United Kingdom, has to be stamped 3*d.* per cent. within ten days of its arrival in this country. It is not the banker's business to do this. It is the business of the

man who imports the goods to stamp the insurance certificate. It is done in this way. The London bank's provincial agent, on presenting the bill for acceptance, hands the policy or certificate (as the case may be) to the drawee temporarily, in order that he may get it stamped. If the bill be accepted, then the acceptor will stamp the certificate, and it will be a valid security. If the bill should be unaccepted, the bank instructs its agent to get it protested, and the bank, for its own protection, or to protect the interests of the colonial bank of which it is the agent, will itself get the marine insurance certificate stamped. Then if anything goes wrong, the matter, so far as insurance is concerned, is satisfactory. It sometimes happens that the original policy has been duly stamped and is held on the other side. In such cases the certificate accompanying the documents does not require to be stamped—a fact which is notified on the certificate itself.

To revert, however, and to review. Suppose the bill is duly accepted by the drawee. There is then, we have seen, a treble alternative. The banker's agent may part with the documents against the acceptor's banker's guarantee of payment; the bank may hold the bills and documents until maturity; or the purchaser of the goods may take it up under rebate in the way described. If the bill be paid, either at maturity or under rebate before maturity, the bank here accounts to the colonial bank for the proceeds in the ordinary way. As there are in all probability frequent transactions between the London bank and the colonial bank, this is simply a matter of account between the two institutions.

There are one or two arrangements which banks make for the convenience of the purchaser on this side. Suppose the market here, after the goods have been ordered, is not favourable for the sale of the produce which the English house has agreed to buy. The purchaser on this side cannot expect the Canadian exporter to wait indefinitely for the proceeds, so the colonial exporter still draws on the purchaser here, and gets his money from his local bank. The produce represented by the draft, instead of being shipped at once, is retained on the other side in storage, and a warehouse receipt is issued against it, with a fire insurance policy or certificate, and these two documents are deposited with the Canadian bank. What happens then is this. The bill of exchange, drawn by the man who exports the produce, goes forward with a certification by the person who holds the goods, confirmed by the bank, to the effect that the produce is held in storage awaiting the instructions of the consignee on this side. If the market improves, the consignee wires or writes for the produce and bills of lading to come forward. This, in rough outline, completes the case of produce from Canada, and may be regarded as fairly typical of the way in which colonial imports generally are financed.

We might take the case of the imports which this country receives of frozen meat from the Australian colonies. In these cases, as a rule, the exporter in Australia or New Zealand who has shipped his meat to this country draws on the purchaser here, and discounts the bill with an Australian bank; that bank sends forward the bill with the documents attached, and the bank here which acts as agent to the Australian bank,

either gives up the documents to the importing house against acceptance, or otherwise, according to arrangement. In most cases of imports there is a good deal to be attended to in the matter of insuring the goods against fire. This, however, is too much a question of detail to be gone into now, and I do not want to defeat my purpose, which has been to give a few practical examples which shall be typical and explanatory of the manner in which British import trade is financed, and of the part played by banks in the relative transactions.

CHAPTER IX.

ARE WE "OVER-BANKED"? (a)

IT has recently been remarked, in another connection, that there are now only two methods by which, or by a combination of which, the operations of a bank can be extended. One is the method of amalgamation, of buying up businesses "ready made"; the other is the method of branch extension, of opening new offices in districts where the banking business, actual or prospective, appears to justify the experiment. By the banker amalgamation is regarded as tending to economy; and branch extension, in the first instance at any rate, to increased expense. By the general public—or that section of it which troubles about such matters—amalgamation is eyed somewhat askance, as leading to monopoly, whilst the multiplication of branches is regarded as an unmixed boon, bringing banking facilities within easy reach of all, and keeping the charges for banking accommodation within reasonable bounds through the medium of competition.

With the standpoint of the banker as to these two phases of his business one is not now concerned, but

(a) From the *Times* (Financial Supplement).

it should not be difficult to point out some considerations which are overlooked by the public in arriving at the conclusions indicated. It is true that amalgamation tends to create a monopoly, but it is not in this generation that a banking monoply will come even within measurable distance, and in the mean time the smaller and weaker banks all over the country are being weeded out and replaced by large and well-administered institutions, to the manifest strengthening of the commercial fabric. With regard to the great extension of banking facilities to which the branch movement has given rise, it is true that those facilities have now been brought within the reach of all; that we have no longer to go a journey to reach a bank, nor to run the risks involved in allowing cash or securities to accumulate in houses or offices. It is further true that the rivalry between the branches of various institutions makes for the benefit of the community in the matter of interest and charges, and induces the banker, without increase of remuneration, to multiply the number of services he renders. Yet again, the growth of the branch system has had the pleasing effect of reversing to a large extent the old relationship between banker and customer, for whereas it used to be the customer who took his turn to be ushered into the presence of the banker, it is now often the bank manager who, hat in hand, waits on the trader to crave his custom or to ascertain his wishes.

So far, so good—from the public standpoint; and if the rush of new branches resulted only in increased and cheaper facilities, the banker might grumble (as, indeed, to do him justice, he does), but the public would undoubtedly benefit. Banking profits would

suffer, and what used once to be known as the "dignity of the profession" would have to go by the board, but these would not be matters of general interest. The risks involved in excessive branch extension are not to be found in the lowering of banking terms. They show themselves in the lowering of banking standards, a deterioration of which perhaps the most significant manifestation is a distinct falling off in the kind of security against which, in certain quarters, banking accommodation is sought and granted. The keeping down of bank dividends does not matter to the community at large, but a lowering of banking standards does, and may come to matter vitally; and if "over-branching" leads to over-banking, to a deviation from the sound and well-understood rules which govern the conduct of a business which affects all other businesses, another and a more general interest is at once given to the branch bank problem. Such deviation must inevitably contain the germs of trouble—trouble not only to the transgressors, but to the public which puts its confidence in them. This point need not be laboured. It is sufficiently obvious. The questions are: Are banking methods deteriorating? And, if they are, can the deterioration be attributed in any degree to an increase in the competition between branch banks, due to the undoubted increase in their numbers?

Probably the best way of answering these questions is to take a concrete case—the case of the most thickly "banked" city in the provinces. In that city (it would be invidious to name it) there is one banking office to every 5000 people, as against one to every 6700 on an average throughout the country. It is

there found, not only that there is more cutting of rates than in places where there are fewer banks—a condition of affairs with which we are not at the moment concerned—but that advances are made against a class of security which is undesirable, and which would not be accepted in places where the stress of competition is less keen. The place in question is the centre of a great industry—an industry, be it noted, subject to considerable vicissitudes. That industry it is the natural and proper function of the banks of the district to promote, and in the main they fulfil this function exceedingly well. But some of them go too far. For example, to take one instance only, the financing of mills in course of erection and the supplying of mill-owners with fixed as distinguished from floating capital are not legitimate banking functions, for they have the cardinal defect of locking up capital which is for the most part repayable to depositors on demand, and which should, therefore, be kept in a more liquid form. Yet this is a form of lending which, in this particular centre, is not only openly indulged in, but keenly competed for, and by banks of good repute. The more conservative institutions naturally stand out against it, but their protests are met with the threat that if they will not entertain it, not only will that particular business pass them, but connected business of a perfectly sound nature which they already transact will be taken from them and given to other institutions less "old-fashioned" in their ideas and less squeamish in their methods.

Now, one is fully aware that *post hoc* is not necessarily *propter hoc*, but it is something more than a coincidence that this tendency to departure from

sound banking should be most marked in the district where banks are more thickly studded than in any other part of the country, and one is forced to the conclusion that when a disproportionate multiplicity of banks is co-existent with a tendency to indifferent banking finance, the relation between the two is the relation of cause and effect. The case mentioned above is, of course, an extreme one. One neither believes nor wishes to give the impression that banking funds generally are unduly "locked up," nor that the kind of lending above referred to by way of illustration constitutes more than a fraction of the business entertained even in the locality in question. Still, *facilis descensus Averni*, and, while, owing largely to that other process of amalgamation to which reference has been made earlier, it is quite certain that the banking business of the country as a whole was never so prudently conducted as it is to-day, it cannot be denied that in certain "congested districts"—districts where there are more banks than there is legitimate banking business to be done—the extreme rigour of competition is subjecting banking standards to a strain to which they are not at all points equal. The solution of this difficulty lies in the hands of bankers themselves, but it is obviously by no means a matter which concerns bankers only.

CHAPTER X.

A FOREIGN VIEW OF THE BANK OF ENGLAND (*a*).

FOR many years past there has been no up-to-date and authoritative history of the Bank of England, but it has come at last; come, too, from a foreign writer —a young Greek professor at the University of Athens, who has put English banking historians to shame. The conventional claim made for the book by M. Lyon-Caen in the opening sentences of his introduction, that it is destined to fill a distinct gap and to fill it happily, is more than a conventionality, and more than a token of the pride naturally felt by a professor in the achievement of his former student. It is fully justified by the work itself.

Professor Andréadès has gone to two sources for his information. He has read all that is worth reading on the subject, and he has also (although, modestly enough, he does not himself tell us so) spent a considerable time in London in order to gain information, at first hand, from the officials of the institution the story of which he chronicles. The statement that the

(*a*) A review (reproduced from the *Economic Journal*) of Professor Andréadès' "Histoire de la Banque d'Angleterre," published in Paris in 1904.

author has read widely in his subject is not based upon the formidable list of "works consulted" which occupies some twenty-one pages of his book, since the insertion of a bibliography, as we all know, does not necessarily indicate more than a bowing acquaintance with the books mentioned. It is based upon copious internal evidence, and especially upon the shrewd comments occasionally made, quite incidentally, upon the authors cited; witness the caustic reference to one writer who, *apropos* of the Bank of England opening certain branches comparatively late in its existence, compares it to "Sarah, qui enfanta dans sa vieillesse," and to another and far better-known economist who, the author tells us (the satire shall be softened by being given in the original), "ait fait de l'histoire moins pour rechercher la vérité que pour prouver certaines vérités dont il doubtait d'autant moins qu'il en était l'inventeur."

Bagehot's well-known warning notwithstanding, the first thing one looks at in a book about the Bank of England is the chapter dealing with the Bank Charter Act of 1844. The author, however, who is well versed in Bagehot, seems to have anticipated this. At any rate, he has got over the difficulty presented by the stock currency shibboleth, partly by carefully summarising and analysing both the strong and the weak points of the Act without taking sides, and partly by substituting for his own views the opinions of the friends of the measure on the one hand, and of its opponents on the other, impartially; though on such an important matter as the separation of the Issue Department and the Banking Department he speaks with his own voice, and with a clear note of condemna-

tion, and is also evidently a believer in "free issues." In the main, however, he is a narrator, telling his story easily, skilfully, and with a clear understanding of its import. He is not a judge. He leaves his readers to form their own conclusions from the material which he supplies. This tendency, which the writer of the introduction considers a merit—"he relates facts and seeks to explain them, but he does not pass judgment upon them"—is, in our view, the only drawback of the work. In some cases the course adopted is the better one. When, for example, the author refrains from expressly declaring himself a partisan of either the Banking theory or the Currency theory, we are with him entirely; but when, towards the close of the book, he describes and discusses fully the schemes put forward after the Baring crisis for the reform of our banking system, we feel, notwithstanding the fact that the book is professedly a history and not a controversial treatise, that we should like to have some clearer indication of the lines on which, in the author's opinion, reform should proceed—an indication which would be especially valuable from one who understands so well the working not only of our own banking and monetary systems, but of those of the leading Continental States.

A strong point of Professor Andréadès' method is his appreciation of the close connection and interaction between political events and financial events. He never loses sight of the fact that to understand aright the growth of a national institution it is necessary also to understand the times in which the institution exists, and for this reason his incidental sketches of the political situation in the seventeenth century, prior

to the founding of the Bank, and of the "Industrial Revolution" in this country, are among the best passages in the book. The necessity for some such institution as the Bank of England is demonstrated, both from a commercial and from a political standpoint; the early difficulties of the Bank are described, the trying period of the Restriction, the Bullion Committee and the Bullion Report; the Bank Act and the political crises preceding and following it—these are all dealt with, and the author's final verdict upon the institution is given in the words of M. Leroy-Beaulieu: "Tout n'est pas parfait à la Banque d'Angleterre, mais, pour l'ensemble de sa tâche, l'instrument fonctionne bien." With this quotation we must leave a book which will certainly obtain recognition as a most able work, useful alike to the student and to the man of affairs. One's only regret, after reading it from cover to cover, is that it is at present only available in a foreign tongue; but this is a drawback which, if English publishers are alive to their own interests, will be speedily remedied.(*a*)

(*a*) An English translation of the work has just been published —February, 1909.

CHAPTER XI.

"MONEY" (*a*).

CURRENCY text-books remind us that it is nearly four centuries since Copernicus quaintly commenced a treatise on money with the following statement: "Numberless as are the evils by which kingdoms, principalities and republics are wont to decline, these four are, in my judgment, most baleful: civil strife, pestilence, sterility of the soil, and corruption of the coin. The first three are so manifest that no one can fail to apprehend them; but the fourth, which concerns money, is considered by few, and those the most reflective, since it is not by a blow, but little by little and through a secret approach, that it destroys the State."

Difficult as it is for us, with our present monetary and banking systems, to realize it, this declaration still holds good. Derange a country's currency, or let its banking system be found wanting in time of trial, and the business of the entire community is thrown

(*a*) The introduction to a series of twenty lectures on Currency and Banking delivered at the London Chamber of Commerce. Reprinted from the *Bankers' Magazine*.

out of gear. Notwithstanding this, there will never be many people who will take the trouble to understand the subject of currency. For one thing, it has a bad name, being regarded as provocative of endless and fruitless controversy. Many who essay to study it have come to look upon it in the light in which Omar regarded the philosophic disputes of his time—

> "Myself when young did eagerly frequent
> Doctor and sage, and heard great argument
> About it and about, yet evermore
> Came out of the same door wherein I went."

The study of money, too, has the reputation of being too technical, too intricate for the ordinary mortal, and, worst of all charges, it is said to be dull—the most dismal branch of the "dismal science." These are the views of the man in the street, but they are not the views which you and I must take. That the subject is technical will be to us no hindrance, since the trade with which it deals is our own. That it is controversial is, to some of us, one of its chief attractions. Its intricacy is not altogether inherent, but is partly the result of confusion of thought and confusion of definition; while when the subject proves dull and uninviting, the fault, be sure, lies with the exponent rather than with the theme. The fact remains, however, that the study of currency is not a popular one. It is, and will always be, the concern of the few, but as it is to those few that the community looks for guidance when changes are contemplated and when times of storm and stress arrive, it is of the highest import that those who do concern themselves with monetary questions shall have arrived at sound conclusions.

Coming to the subject-matter of the first lecture—the functions and attributes of money—the memory of those of us who have suffered many things at the hands of writers on political economy goes back to certain preliminary chapters in which, with a view to emphasize the usefulness of money and the inconvenience of the want of it, the drawbacks and disadvantages of barter are fully set forth. Which of us, in his early reading of economics, has not been invited to sympathize with the plight of the baker who goes shoeless because he can find no bootmaker who wants a pair-of-shoes' worth of bread, and of the tailor who, having made a coat, and wanting to buy bread or a horse, is in a difficulty because he finds that the coat will command too much bread and too little horse for his purpose? But tired though we may be of the stock examples, which have certainly been worn threadbare, the fact which they are intended to illustrate remains, and we have to recognize that the need for money arises from the "want of coincidence in barter." To find a man who happens to want the particular article which I have for sale is difficult, but if I can get, in exchange for that article, something which, at my own time, I can readily exchange for any other article, I have solved the difficulty, and I call that interposed something "money." Money exercises the same intermediary function in the exchange of commodities that the jobber on the Stock Exchange exercises in the purchase and sale of securities. Money is, in effect, the jobber of commerce. In other communities and in other days, money, as we know, has taken forms very different from those with which, from constant usage, we have come to associate it

to-day. The skins of animals and pieces of dried fish were a favourite form of money when hunting and fishing were the principal pursuits of the people. In the pastoral state, men habitually used cattle as money, a fact of which we are reminded by the derivation of the Latin word "pecunia," meaning money, from "pecus," cattle. Corn was largely used for the same purpose when the agricultural stage was reached, and blocks of salt or tobacco, palm oil, pieces of cloth of a given size and quality, cowrie shells, and many other things have served, and some of them still serve, in the same capacity. All these, however, are subject to disadvantages. For the purpose of deferred payments, for example, fish, even when dried, is open to obvious objection. Sheep and cattle make very good money up to a certain point; but the fact that it has to be fed is, of course, a distinct drawback to any form of currency. And so we find that centuries of experiment and of progress have resulted in the general adoption amongst civilized communities of the precious metals, gold and silver, as money; and we further find that whereas, in the first instance, those metals were weighed against goods, and later on were stamped with the seal of the king or ruler, to obviate the necessity of weighing and assaying, a system of coinage was resorted to, thus laying the foundation of our present metallic currency, which consists of coins of gold, silver, and bronze, each of a given weight and fineness, and each stamped by the State in such a way as to be readily recognizable, and generally accepted and passed from hand to hand.

It would appear to be more scientific, before going further, to attempt to arrive at a satisfactory definition

of money, but we shall be in a far better position to do this after we have examined the various functions which money performs. This we may proceed to do forthwith, premising only that while in doing so we shall find that originality is out of the question, since the field has been covered again and again by every writer on the subject; we shall be able fully to console ourselves for this by the reflection that we have the advantage of distinguishing between the views of all the authorities, and of adopting the best of them as our own.

The first function performed by money is that of a medium of exchange, and this can be very briefly disposed of, having already been referred to. You have something to dispose of, but the things which you would like to obtain in exchange for it are not the things which you want at the moment. You therefore exchange the article which you have to dispose of for money, which you can use when and how you think fit, and which thereby becomes the medium through which exchanges are performed.

But there is in barter, in addition to the want of coincidence between the wants of the buyer and the seller, another drawback. There is no single thing in which the value of other things can be measured. As Jevons puts it, "If a certain quantity of beef be given for a certain quantity of corn, and in like manner corn be exchanged for cheese, and cheese for eggs, and eggs for flax, and so on, still the question will arise — how much beef for how much flax, or how much of any one commodity for a given quantity of another? In a state of barter, the price current list would be a most complicated document, for

each commodity would have to be quoted in terms of every other commodity." Perhaps the best way for us to realize what this would mean would be to take to-day's Stock Exchange list, and try to imagine what it would be like if every stock, beginning with Consols, were quoted in terms of every other stock. It is here, of course, that money comes in. In addition to being a medium of exchange, it is a common measure of value; a common denominator in exchange. Everything is quoted in terms of money, and comparisons, which would otherwise be so cumbersome as to be practically impossible, become at once a matter of simple calculation. Even, therefore, when no actual money passes in a transaction, money still serves as the common measure by which the amounts payable and receivable, whether between individuals or nations, are estimated.

When general transactions get beyond the hand-to-mouth stage, money develops a third and very important function, that of a standard of value, or, as writers with a passion for exactitude prefer to call it, a standard for deferred payments. Let Jevons speak again.

"Every person making a contract now by which he will receive something at a future date will prefer to secure the receipt of a commodity likely to be as valuable then as now. This commodity will usually be the current money, which will thus come to perform the function of a standard of value." For this particular function the precious metals, as we shall see later, are by no means perfectly suited, for at long intervals the variation in their purchasing power is very considerable. The suburban householder and the

man who rents an office in the city know well enough that a sum of money which, ten years ago, would give him the use of a house or office of a certain size will by no means command such good accommodation now; while, on the other hand, if he will consult his housekeeper, he will be told that a far larger quantity of tea and sugar can now be purchased for a given sum than was the case much less than a generation since. Illustrations more to the point might easily have been chosen. One is not, however, at the moment either attacking or defending the use of money in this connection, but simply pointing out that it *is* so used, and that while some of the other functions of money may decrease in importance, this is one which is likely to be exercised more and more.

The fourth capacity in which money figures is that of a store of value. For this purpose other things than money will serve, but not equally well. A friend of mine, who went to Australia at the time of the gold discoveries in the middle of last century, habitually carried his small wealth about with him in the form of jewellery. It was safer than a bank, he has told me, and more portable than gold. I fancy, however, that he must, at a pinch, have found a considerable difference between the buying and the selling price of his rings, and that to that extent they were comparatively defective as a store of value. Money, on the other hand, is a most convenient form of condensing one's belongings.

Money, then, is a medium of exchange, a common denominator in exchange, a standard for deferred payments, and a store of value; and if, while remembering these functions, we take especial care

not to confuse them—if we remember that, although money meets all these requirements, yet there are other things which may answer each requirement separately—we shall have laid the foundation for a better understanding of some of the more complex problems with which we shall have to deal later on.

The qualities which money should possess to enable it, to the best advantage, to perform the foregoing functions, may be enumerated, but need not detain us long.

The first of these are utility and value—attributes without which money would be useless, inasmuch as it would meet with no general acceptance.

The second is portability. The money of a community must neither be too heavy to be conveniently carried nor too minute for business purposes. Jevons tells us, on the one hand, of a case where copper was the principal medium of exchange, and was so heavy that every merchant who went to receive a payment of any magnitude had to be accompanied by a wheelbarrow; whilst, as an illustration of the opposite extreme, he instances the quarter dollar gold tokens which he had seen in California, coins which were so thin that they could almost be blown away. In international transactions the importance of the portability of money is considerable, for although the great bulk of international payments is settled by set-off, temporary differences have to be met by the transmission of the precious metals, and countries with foreign transactions (especially when already handicapped with obsolete systems of weights and measures) cannot afford to further handicap their trade by adopting a currency so heavy as to be

expensive to transmit. Those of you who have travelled in France, and have had experience of the five-franc piece, or who may have judiciously mixed, with the smaller silver in your till, a few English four or five shilling pieces, will very readily realize that portability is a quality of money which is much appreciated.

Indestructibility is the third attribute which should distinguish money. Anything which passes from hand to hand and from till to till with such frequency as coin must not be of a perishable nature or easily worn, and gold and silver, mixed with the proper quantity of alloy, are particularly suitable for purposes of coinage.

A fourth quality which is desirable in money is homogeneity; in other words, all portions of the substance used as money should be homogeneous—of the same quality throughout—so that equal weights of coin will have the same value. In *some* respects the precious metals are comparatively wanting in the desired qualifications, but in *this* respect they approach as near to perfection as possible.

The next attribute, divisibility, need only be mentioned, for it is clear that nothing will serve generally as money if its parts, taken together, are of less value than the whole.

The sixth quality which money should possess is stability of value. This we have already noticed in considering money as a standard for deferred payments, and we have seen that gold and silver are both open to objection on the score that at one time they will command more or less of commodities in general than at another. After the gold discoveries in

California and Australia in 1848 and 1851, gold became so plentiful that each gold coin commanded a smaller quantity of goods than before; in other words, prices rose. Later on, when silver began to be discarded in favour of gold as a standard, and gold consequently came into greater demand, gold became more valuable as compared with goods; in other words, prices, as measured in gold, fell. It will be seen, therefore, that the precious metals do not possess stability of value in the highest degree. If they had possessed this quality, there would have been no Bimetallic League. This, however, opens up questions which fall to be dealt with later on, so that we are free to note the last of the attributes which money should possess—what has been called cognizability—the quality of being easily recognized and distinguished from all other substances. The times have gone by when men had leisure to weigh and test the coins that were tendered to them in exchange for services or goods. We want something which shall be at once recognizable, and nothing which has not this quality will serve as money in a modern community.

These, then, are the attributes which should characterize money, and the suitability of any substance to serve as money is great or small in proportion as it possesses them. It is because gold and silver combine these attributes to a greater extent than any other known substances that they have come to be recognized as the metals, *par excellence*, for coinage purposes.

CHAPTER XII.

BANKERS AND MUNICIPAL ACCOUNTS (*a*).

IT is curious, but it is nevertheless a fact, that there is a glamour about the position of treasurer to a municipality or other public body which few bank managers seem able to resist, and that to secure or retain such an appointment, carrying with it, as it usually does, the banking account of the body in question, the average bank manager will take an immense amount of trouble. He will put forth all his influence, personal and official; he will sacrifice his leisure and spend his energy; he will assiduously canvass, personally and by letter, sometimes by both methods; and in some instances—entirely exceptional, we fully believe—he will even adopt measures which will not bear the light of public scrutiny. There is no need to go into detail as to the precise methods employed to compass the desired end. One need not look further afield than to the columns of the *Times* to appreciate the fact that, keen as competition is in banking with regard to every class of business, public accounts are the occasion of the keenest rivalry of

(*a*) From the *Times* (Financial Supplement).

all, and that such rivalry is frequently carried to excess (*a*).

Some of the reasons underlying this active competition for the banking accounts of public bodies are easy enough to trace. There are instances in which such accounts are still, in themselves, profitable. In others it is urged, not without reason, that to be treasurer to a board of guardians or municipality or other public body confers *status* upon a bank manager, and brings to the bank he represents a certain amount of local *prestige*. Public accounts are also generally believed to bring other business in their train, though whether they really do, in point of fact, bring much collateral business worth having is frequently open to question. Notwithstanding these and similar considerations, it is fairly certain that many municipal accounts in themselves do not pay the banks which compete so eagerly for them. The amount of bookkeeping connected with such accounts is necessarily considerable. The clerical work involved, not only upon the rank and file of the staff, but upon the manager personally, is great; frequently altogether out of proportion to the remuneration allowed. Many corporations exact from their bankers unduly high rates of interest on credit balances, and expect to be

(*a*) A passage from a daily paper dated 24th December, 1908, is of interest in this connection, as showing the length to which banks in other countries are alleged to have gone in their eagerness to secure municipal business. In reporting the trial of certain councillors of a city in the United States it says, "Evidence was given that the —— Bank paid the members of the Finance Committee £4000 for the privilege of receiving the Municipal Deposits. This privilege was granted, though other banks were willing to pay a higher percentage."

charged very low rates for any accommodation they may require, taking such accommodation, often without previous arrangement, at periods when the bank happens to be husbanding its resources for other purposes or when it could use them in other directions on far more advantageous terms. Many municipal banking accounts are conducted on lines which do not pay the bankers directly, and some on conditions which are not remunerative either directly or otherwise. Nevertheless, the competition for such accounts continues, and no one can blame local bodies for taking full advantage of the fact.

Of far greater general importance than the question whether public accounts are worth the while of bankers to conduct is the bearing which the competition between banks for such accounts has upon the interests of the public. Bankers are commonly reputed to be able to take care of their own interests, but the public, in so far as one may judge by the way in which local burdens continue to increase, irrespective of what party may be in power, seem to find it difficult successfully to safeguard theirs. In a sense, the more amenable the banker to the pressure brought to bear upon him by a municipality, the better for the ratepayer. But this is only in a narrow sense, and for a reason which is not upon the surface, but the force of which will be recognized when it is considered. The principal financial vice of the average local body—be it corporation, urban district council, board of guardians, or other—is not wilful extravagance, as seems to be generally supposed, but shortsightedness, resulting in muddling, hand-to-mouth finance. This is the cause of the trouble, and the waste of public

money—when such waste is administrative, and not the outcome of mistaken general policy—is simply one of its results. It is not that there are few financial geniuses on these representative bodies. Such geniuses are as rare (and as unnecessary) on local bodies as at the head of the national Exchequer, and with the difference, among others, that at the Treasury there are capable permanent officials who will keep even the weakest Chancellor from straying far wrong.

The real trouble is that on the finance committees of many local bodies there are so few men who possess a really businesslike grasp of the nature and requirements of municipal finance; there are so many amateur financiers. The average councillor has about as much idea of the financial requirements of his council as the second-rate suburban builder has on a Monday of how his Friday's wages are to be provided. The councillor may or may not understand tramways, electric lighting, and other of the hundred and one matters with which the council has to deal, but it is only in rare instances that he knows anything of systematic and businesslike finance. Financial contingencies which a business man who knew his business would foresee to be inevitable, and would arrange to meet weeks or months in advance, are not foreseen, and consequently not provided for, until they loom large and close at hand. Sometimes, of course, the town clerk happens to know something of finance, but the town clerk is primarily a lawyer, and it is not reasonable to expect him to be a financier. Occasionally the chairman of the finance committee knows something about finance and is able to forecast the needs of the council a little ahead, but frequently it is otherwise.

If this lack of financial foresight occurred in the case of private individuals or trading companies, it would meet with a speedy and effectual check. The disappearance of their balance at the bank would bring them to their senses. The policy of helping themselves to the bank's funds would not avail, for the simple reason that it would not be allowed. They would be informed that they should have made arrangements in advance for any accommodation they were likely to need. But with many public bodies, and especially with those whose bankers are in the habit of "lying down to be kicked," there is no such check upon shortsightedness and improvidence. In the case of a firm or company, "the borrower is servant to the lender." In the case of public bodies, the position is frequently reversed, and the lender is the slave of the borrower. When a corporation wants accommodation in those instances where the habitual attitude of the banker is such as has been (with perhaps undue picturesqueness) indicated above, it simply takes it, and however inconvenient or unremunerative such a course may happen to be to the banker, he dare not complain, lest it should be suggested at the next meeting of the committee or the council that the banking account of the corporation should be transferred to a rival bank which is likely to prove more complacent. This inversion of the usual relationship may not only cause inconvenience to the banker—an aspect of the matter with which we are not at the moment concerned—but it is demoralizing to the municipality. Inevitably, those members of the council who are disposed to be more businesslike than their fellows will be discouraged,

and the tone of the finance committee will be proportionately lowered. "Why should we trouble carefully to forecast and estimate our requirements if we can get as much accommodation as we want when and how we like?" is the line which both council and officials insensibly begin to take, and the muddling, with the loss which is inseparable from all muddling, financial and otherwise, continues and increases, while the public pay the piper. Improvidence, with public bodies as with private individuals, is the mother of extravagance, and in so far as the undue complaisance of many bankers towards municipalities encourages improvidence, no gain accrues either to the ratepayer or to the banks.

CHAPTER XIII.

"BANK RATE": ITS EFFECT ON THE MONEY MARKET AND THE STOCK EXCHANGE (*a*).

BEFORE we can talk about Bank rate and its effects, we must have a definition; we must know what "Bank rate" is. If you consult Mr. Clare —one of the greatest living authorities on the Money Market—you will find that he defines it as "theoretically the lowest rate at which the Bank of England will discount approved bills of exchange, or make advances on mercantile securities for short periods." This is a very good definition. Bank rate is really the minimum rate which the Bank of England is willing to quote to outsiders (*i.e.* people who have no account with it) for fine bills of not more than three months' currency. If any one seeks to discount a six-months' bill, the Bank rate does not apply, because Bank rate is only applicable to bills having not more than three months to run. Only comparatively recently—in 1878—Bank rate was the real minimum

(*a*) A lecture delivered in connection with the London Chamber of Commerce, at the London Commercial Sale Rooms. Reprinted from the *Bankers' Magazine*.

at which the Bank of England discounted for anybody, customer or non-customer; but at that time the Bank began to discount for its regular customers at what are known as market rates. Thus, we come across at the outset one of the anomalies of the Money Market: that the Bank of England minimum rate is not actually a minimum rate; that the Bank habitually discounts bills for its customers at a rate lower than the nominal minimum. The reason for this difference in the "minimum" rates is obvious. If you go to your banker in the City, say, to any joint stock bank, with the right sort of bills for discount, he will discount them for you at market rate, and people who kept their account at the Bank of England naturally did not see why the fact that their bank happened to be the premier bank of the kingdom should give it the right to charge them more than the other banks charge their customers. You must not assume from the foregoing, as you naturally might without a special reservation, that Bank rate is *always* higher than market rate. It is not so. There are times—exceptional times—when the "market" is above the "Bank." Last year, for example, there was a time when the Bank rate was 4 per cent. but the Bank was charging the bill-brokers 4½ per cent. It may be taken as a general rule, however, that the working rate of the market is more favourable to the discounter than the official minimum rate of the Bank.

It seems a little curious, at first sight, that the Bank rate—the rate at which one bank is willing to lend money—should be a matter of such importance in the Money Market. If you want evidence that

the Bank rate still is an important factor you can easily satisfy yourself on the point by going into the corridor of the Bank of England when the directors are holding their weekly meeting, and when there is a likelihood of an alteration in the rate. Look around you then, and you will see a most curious assemblage, people of all sorts and of all occupations, a microcosm of the world of finance, awaiting the result of the directors' deliberations; and, when the messenger comes out with the placard announcing an alteration in the rate, or "No change," as the case may be, there is a general helter-skelter back to the various offices, and the result is cabled and telegraphed over the whole of the commercial world. So closely connected nowadays are the financial centres of the world that the rate in one centre affects the rates in every centre; London rates being a specially important factor, inasmuch as London is still the only open market for gold in Europe.

There is no doubt, then, about the interest which a change in the Bank rate arouses, and what we want to find out now is the ground upon which this interest rests. The first cause of it is, I think, to be found in the fact that the Bank rate is the foundation of bankers' charges for accommodation, both by way of loan and discount. Those of you who may have occasion to borrow know that if you go to your banker for an advance and ask him what he is going to charge you for the accommodation, he very rarely gives you a fixed rate, but protects himself from possible fluctuations of the Money Market by quoting a rate which bears a distinct and fixed relation to

Bank rate. Bankers lend their money on a sliding scale, and that sliding scale is based upon the Bank of England "official minimum." For this reason Bank rate affects all classes of business people—the stockbroker, the bill-broker, the wholesale merchant, the shopkeeper, the private individual; all classes of people who to any extent carry on transactions with the aid of capital borrowed from banks or from discount houses. When there is a change in the rate one class transmits the effect of the change, directly or indirectly, to another class: the money-broker to the stockbroker, the stockbroker to the speculator, the wholesale firm to the retail trader. It is the fact that practically no one carries on business wholly with his own capital that gives to the Bank rate its importance. "What does Bank rate stand at?" "Is there to be a change?" These are not merely banking questions; they are questions for every business man.

There is, however, another class of people besides borrowers affected by changes in the Bank rate. I refer to depositors. Deposit rates, as a rule, rise and fall in conformity with the fluctuations of Bank of England rates. Of course there are parts of the country where banks allow a fixed rate all the year round on deposits, but this is the exception. In London, and in some parts of the provinces, the rate allowed on deposits for fixed periods, and in some parts of the provinces on current account balances, bears a relationship to the Bank of England rate. In London that relationship is very direct, inasmuch as the advertised deposit rates of the London joint stock banks (except when money is quite abnormally

dear) are $1\frac{1}{2}$ per cent. below Bank rate for the time being. To the fact that depositors, as well as borrowers, are affected by the figure at which Bank rate stands must be ascribed some share of the interest with which that rate has come to be regarded.

We have now seen something of the way in which Bank rate affects borrowers and lenders, but we have not yet completely solved the deeper question of why the Bank of England—a single bank—should have the power of practically regulating the value of money throughout the kingdom, and of influencing its value throughout the world. After all, the Bank is only one of many banks, some of them now having charge, at times, of even greater sums than those held normally by the Bank of England. "Why should the rate at which this particular bank happens to be willing to lend govern all other similar transactions?" Why should the value of money be fixed by any one institution?

I suppose we were all brought up to believe that what fixes the rate of interest is the demand for money on the one hand, and the supply of it on the other. If we have been taught that, we have been rightly taught. It is a fact that changes in the demand for money and in the supply of money regulate the price at which it can be borrowed. The key to the particular problem which we are trying to solve lies in this, that the Bank of England practically controls the supply.

You will remember that we have on a previous occasion noted that no bank, except the Bank of England, keeps in its hands any reserve of gold worthy of the name. All that most banks keep is till

money and a little over. If any considerable sum is required, banks have to have recourse to the Bank of England for it. Now, as you know, a large holder of any commodity may for a time lay down a minimum price which he is willing to take for it. Take copper, as an example, and suppose for a moment that you and I are a syndicate desirous of controlling the price of that metal. If our holding be large enough, we can raise the price by withholding our copper from the market, or we can depress the price by placing large quantities for sale. What is true of a holder who has a controlling supply of a commodity to sell is true of a holder who has a preponderating quantity of a commodity to lend. As Mr. Bagehot has so clearly pointed out, the outside market has not enough money to discount all the bills that are offered for discount and to make all the loans which the business of the community requires, and people have, therefore, to go to the Bank of England, which, being in the position of an important holder—a holder some part of whose stock is indispensable—says, in effect (not in fact, of course; it is much too polite for that), "Such and such a rate is the minimum rate at which I am willing to lend. You can give that rate, or you can go elsewhere," yet knowing all the while that you cannot get the accommodation elsewhere; that the other banks have not enough to go round.

This leads us to the relation between Bank rate and the market rate of discount, to understand which we shall have to see, by means of what I may call a pertinent digression, in what the profit of a banker consists. It consists, broadly speaking, in the difference between the rates at which he borrows money

(*i.e.* receives deposits) and the rates at which he lends money. There is, of course, an important additional source of profit, and that is the commission charged by banks for services rendered to its clients, an item which forms a very considerable amount in the earnings of banks; and there is also, of course, the interest on investments. Now, if a banker, in consequence of a rise in Bank rate, has to allow his depositors higher rates (and he does), he has to make it up somehow, because bankers are not yet working on philanthropic lines, though they are being driven in that direction. He has to charge higher rates for the money which he lends; he has to charge a higher rate of discount. In other words, the market rate rises. Hence the close connection between the Bank rate and market rate.

It is to be noted that at some times Bank rate is very much more effective than at others. There are seasons of the year at which market rate is much nearer to the Bank rate than at other periods. On some occasions the market rate will sag quite away, and leave the Bank high and dry. When this happens —when the directors of the Bank of England find that the public, instead of coming to them for accommodation, go to the banks and discount houses, and leave them with money comparatively unemployed—they have two courses open to them. If the stock of gold in the banking department warrants such a course they lower the Bank rate, so as to secure some of the business going. The alternative is one which you should remember. It is what is known as the Bank of England "borrowing on Consols." What happens is this, that the Bank sells a certain proportion of its

holding of Consols for cash, and at the same time buys the Consols back for the monthly Consol account. You see, by selling for cash, the Bank "mops up" the superfluous money of the market; the money which enables the other banks to underbid it. One result of this is that people who would otherwise go to the other banks to borrow money, have to fall back on the Bank of England, with the consequence that the Bank rate and the market rate draw more closely together. The Bank arbitrarily raises outside rates by "borrowing" the money which would otherwise be used in outbidding it.

It is a little difficult to deal comprehensively with the Bank rate and market rate without going into the question of foreign exchanges; but for the moment we must take for granted the action of the exchanges. The foreign exchanges are only indirectly affected by Bank rate. What really affects them directly is the market rate. If a big mercantile house abroad wants to discount its bills on the London market it sends them, for the most part, to one of the big institutions other than the Bank of England, and gets them done at fine market rates. It is the figure at which *market* rate stands, therefore, that is considered when a foreign firm decides whether to send its bills to London and whether to withdraw the funds it has lent out in the London market. A rise in the Bank rate will only attract gold in so far as it raises outside rates which directly attract gold. If the Bank rate falls, and the market rates consequently get lower and lower, the exchanges turn against this country, and gold ceases to come in and begins to go abroad. The Bank of England then has the option of improving outside

rates, either by raising its own rate, or by "borrowing on Consols," as already explained.

The Bank of England rate, it may also be noted, is the principal weapon for protecting the national stock of gold, and this is another point which should be noted when we consider its importance. It is easy to illustrate this by a historical instance. At the time when France was paying Germany the huge indemnity after the war of 1870–1 the Bank rate in this country was high for quite a long period, and for this reason: that the indemnity was not paid from France alone, but also through her creditors all over the world; and in England, in order that too much gold might not leave the country for the purpose of helping to pay this indemnity, the directors of the Bank raised the Bank rate, and during the whole period of these transactions kept it a higher figure than the ordinary state of business warranted. This was, of course, rather hard on business men who had nothing whatever to do with the war, but that is the way with wars, and will be until "those who make the quarrels are the only ones to fight."

Curiously enough, the Bank rate as a means of affecting the foreign exchanges is a comparatively recent discovery. If you read all the currency discussions that took place previous to 1844, and the multitudinous pamphlets on currency of about that date, you will never find the Bank rate mentioned as an engine for obtaining gold. It does not seem to have struck any one at that time that a rise in the Bank rate was the most effective means of attracting capital from abroad. Now, of course, it is recognized, though at the present time a reaction is already appearing.

There is a current contention that the Bank rate is becoming ineffective, and that the effect of a rise is not so immediately powerful as it used to be.

The importance of the Bank rate then arises from three causes—

I. It is the foundation of lending rates throughout the country.

II. It is the foundation of deposit rates.

III. It is a means of protecting the national gold reserve.

Now we have to go a little further back still to find out, if we can, the factors which determine the Bank rate at any given time. The cause which affects the rise and fall of the Bank rate most is undoubtedly the amount of the reserve in the banking department of the Bank of England. In other words, the condition of the Bank reserve—"actual and contingent"—is by far the most material element in determining the Bank rate and the rates for loans and discounts generally. The reason why the Bank of England weekly return is studied so closely is, that if the reserve is dwindling a rise in Bank rate is likely not to be far off, other things being equal; and if the reserve is increasing the Bank rate is likely to be lowered before long. If any proof be needed of the fact that the amount of the Bank reserve is the immediate cause of fluctuations in the Bank rate, it may be found in published tables which show the state of the reserve at the nearest day on which changes in the Bank rate have taken place. Low reserve, high rate; high reserve, low rate; this is the general rule. You must, of course, allow for the possibility of other things happening, known only to the directors of the Bank of England and not to the general public. There is hardly

anything that happens in the financial and political world which does not to some degree affect the amount of the reserve. There is the state of credit in this country; the state of credit in every country with which we have commercial dealings; financial fears, political complications, and a thousand and one other influences. If there is a bad harvest in this country, for example, and we have to import corn extensively, we have to pay for the corn, and this (in the absence of an equivalent and simultaneous counteracting influence) causes a drain upon the reserve. The mere harvesting of the crops at home affects the reserve, inasmuch as it increases the amount paid in wages, whilst it is notorious that people's autumn holidays have a like effect. The customs—social and commercial—of Scotland are another cause, because, in the spring and at Michaelmas "term time," our Scottish neighbours make many of the payments which we in England make monthly or quarterly, and so require a larger amount of money than at ordinary times. Over-speculation has a considerable effect. Indeed, it would be very hard to find a financial event or influence of any magnitude which is not reflected in the two items of the Bank Return which constitute the reserve of the Bank of England.

The effect of the Bank rate on borrowers has already been seen, and now I want to say a word or two about its effect on the prices of goods—of merchandise. I will leave out qualifications, and try to show how a rise or fall in the Bank rate tends to affect the prices of general commodities. There is a sort of cycle. It begins with a kind of *crescendo.* Suppose Bank rate falls, the result of this is that borrowing, which

previously seemed difficult, is rendered easy; money can be borrowed on easier terms, and therefore more money is borrowed. The price of goods is, as you know, regulated by the demand for goods on the one hand and the supply on the other, and an addition to the quantity of money at the disposal of purchasers leads, *inter alia*, to an increased demand for goods. The result, therefore, of the cheap and easy borrowing which follows a fall in the Bank rate, and the consequent greater demand for goods, is that prices in general rise. But the result of the higher prices caused by the fall in the value of money is that more money is required for general use. When prices, in this or any other country, are high, more money is needed in order to carry on business transactions than when prices are low. To circulate a given quantity of goods more coins are required, and this, through the medium of the banks, causes the figures of the reserve to be trenched upon. The result of the bankers' diminishing reserves is a demand on the reserve of the Bank of England, and the outcome of this, in turn, is that the Bank of England directors have to put up the rate. A fall in the Bank rate brings into play influences which eventually lead to a rise in the Bank rate. This rise in the Bank rate again forces those who cannot afford to continue to borrow at the increased rate to sacrifice their wares rather than continue to hold them by means of money borrowed at high rates, and the result of the scale is that prices again fall, less money is required, the Bank rate is lowered again, and the cycle is complete—the cycle *from* a low Bank rate *to* a low Bank rate; from a given level of prices back to the same level. It may be stated as a broad fact—with many

qualifications, be it specially noted—that high rates for money tend to a fall in the price of goods, and low rates for money tend to a rise in the price of goods.

And now we come to our last point—the effect of Bank rate upon the stock markets. Why do people —Stock Exchange people—brokers, investors, and speculators—borrow money? There are two reasons. There are some people you read about, but rarely meet, who borrow in order to invest in securities which will bring in a higher rate of interest than they are paying on the loans with which the stocks are purchased, and so profit by the difference. It is a matter to be regretted, on high moral grounds, that by far the larger proportion of borrowers do not borrow on account of the interest at all, but because they hope that the stock they have bought with the borrowed money will increase in capital value. We find that "continuation" rates are directly affected by the Bank of England minimum rate of discount. Bankers who lend money on the Stock Exchange regulate their rates by Bank rate, and when you realize what a mass of speculation is carried on with the aid of borrowed money, you can see how Bank rate affects the Stock Exchange. You will have noticed, if you have studied the newspapers just before a rise in the Bank rate, that "Stocks were nervous, because it was feared there would be a rise in the Bank rate." Many people who have bought stocks with borrowed money cannot afford to pay higher prices for the loan, and so they sell their securities, with the result that Stock Exchange prices fall. The effect on the Stock Exchange of Bank rate is more marked and immediate than it is in the case of the markets for merchandise or goods, because

on the Stock Exchange there is, on the whole, a larger proportion of speculative business, and it may be taken as a general rule that a rise in the Bank rate tends to lower the price of securities, and a fall in the Bank rate to raise them. Once more, however, the qualifying phrase *cæteris paribus* must be kept well in mind. It is with *tendencies* that we have been dealing, all along.

CHAPTER XIV.

UNITED STATES CURRENCY AND BANKING EXPEDIENTS (*a*).

THE various expedients to which the Secretary of the Treasury has of late resorted with a view to mitigating the monetary stringency in the United States, throw a curious light upon the working of American financial institutions. That money should be scarce in New York at this time of the year is, of course, nothing new, and the problem of relieving the scarcity is one which recurs every autumn, but the difficulty of the problem is this year accentuated by two influences. The abundance of the harvest in the Western States is causing a correspondingly increased demand for currency for the purpose of gathering the crops and moving them to the seaboard, and the periodical statements issued by the Treasury show that the amount taken off the market in respect both of Customs and of internal revenue has, of late, been growing week by week, and day by

(*a*) From the *Economist*, 20th September, 1902. The conditions upon which the article is based are still, in the main, unaltered.

day. To alleviate so far as possible the dearth of money produced by these concurrent demands, successive devices have been adopted by Mr. Secretary Shaw. It will be remembered that he began at the end of August by inviting the larger national banks in the principal cities of the States to order additional notes to be printed for use in case of emergency; an invitation which was accompanied by an announcement that the proposed measure was to be regarded as purely provisional and precautionary, and in no way intended to conflict with the various other methods previously employed in relieving the money market.

As an indication that the monetary position and outlook were realized in the right quarter, this "invitation" was not without value, and the fact that the amount of notes issued by the national banks is far below the amount which they are entitled to issue, gave a certain speciousness to the suggestion. Moreover, such influence as the Treasury could bring to bear was used to induce the Trust and other companies holding Government bonds to smooth the way for such an addition to the circulation by lending their bonds to the banks for the purpose of securing the fresh issues. For reasons which we pointed out at the time, and into which there is no need to enter again, any relief arising from these sources could only be slight and temporary, and recourse was, therefore, had to further devices. First came the rumour, afterwards confirmed, that the Secretary to the Treasury would anticipate the payment of the October interest on the Government debt, amounting to $4,200,000, and then the definite announcement

that, after causing a list to be prepared by those national banks which held unpledged United States bonds at the date of their last report, Mr. Shaw had notified those banks, and certain others, that if they cared to lodge their unpledged bonds temporarily with the Treasury, deposits equivalent to the value of the bonds would be lodged with them to the Treasury's credit. "Lodge your free bonds with me," Mr. Shaw says to the bank, in effect, "and I will help to tide you over this stringency by depositing with you an equivalent amount of cash." Lest mere suggestions should be ignored, Mr. Shaw goes one step further, and indulges in a mild threat. He informs the banks that he will himself use the Government funds where he can confer the greatest advantage, giving to banks already holding Government funds the preference if they decide to issue new notes. This, in plain English — it will be noticed that American financial language, no less than political, occasionally requires translation — is equivalent to saying to the banks which hold the Government deposits, "If you will not take advantage of the facilities for providing additional circulation to which I call your attention, I will withdraw the Treasury balances from you and deposit them with banks which will."

Now, against these various efforts to relieve the monetary strain in the States we have very little to say. Perhaps we should have thought more highly of them if they had not been accompanied by the assurance that the Secretary to the Treasury sees no evidence of a currency famine "anywhere else than in New York"—a statement equivalent to a

declaration by a physician that he can find no sign of disease about the patient except in the heart. All that we have to say with regard to these measures is that, well meant as they undoubtedly are, they are not adequate; they do not go far enough. The anticipation of the October interest and the fresh deposits of Government money may possibly afford relief to the extent of about a couple of millions sterling, probably less, and to imagine that this will meet the situation when the reserve of the New York Associated Banks is only £143,000 above the legal minimum, and the reserve of many of the banks is below the statutory proportion, would indicate that the requirements of the case were entirely underrated. As a matter of fact, the Secretary to the Treasury does not underrate them. His statement that there is no occasion for alarm, taken in connection with the announcement above referred to that the only evidence of a currency famine is in New York, shows that he fully appreciates the situation, for it is intended to reassure business people on the other side who are being made anxious by the high rates, ranging at times up to 20 per cent., recently exacted for short loans in New York.

The blame for the present situation lies, not with the Secretary to the Treasury, who is making the best of a difficult situation, but with the system which he finds in operation, and which he is called upon to administer. Take the note issues of the banks as an example of this. National banks proposing to issue notes are required, as is well known, to secure them by a deposit of United States bonds, the bonds themselves being held by the Treasury, and the

interest on them collected by the depositing banks. This arrangement worked well at one time both for the Treasury and for the banks. It gave great assistance to the Government in disposing of its bonds after the Civil War, and it afforded to the banks a sound and convenient basis for their circulation. Circumstances have now entirely changed. The supply of Government bonds has enormously diminished; the existing stock is tightly held, and the bonds command a practically prohibitive premium, with the result that it simply does not pay the banks to increase their issues, though the need of additional currency is greater than ever. Such an arrangement is an anachronism. The absurdity of continuing it has been put in a sentence: "A constantly decreasing national debt is not a good basis of currency for a constantly increasing volume of trade, with a commensurate demand for cash." The truth of this statement cannot be gainsaid, and one of the first concerns of those who wish to see American currency established on a firm footing should be to find a basis other than Government bonds for the issue of bank notes. The absorption from the market of large amounts of cash by the Treasury for taxes and Customs duties is another legitimate source of complaint, and gives rise to the anomalous spectacle of a very stringent money market, with accommodation only obtainable with difficulty and at exorbitant rates, side by side with a Treasury so full that it does not know what to do with its huge unemployed and unemployable surplus.

A further cause which aggravates the monetary stringency is the rule which compels the National

banks—by far the most important class of banks in the country—to keep, in certain specified cities, at least a fourth of the amount of their deposits in the shape of coin or legal tender notes of the United States. That a bank's reserve of cash should be proportionate to its liabilities is a sound banking principle of general application, but an inflexible limit, to be adhered to year in and year out, at one season as at another season, whether trade is brisk or slow, and whatever the cash requirements of the moment may be, is hard to defend in its entirety. If the proportion of cash held by a National bank should fall below the minimum fixed by law, the bank has to cease lending until the proportion is restored, and if the proportion be not restored within thirty days, the Comptroller appoints a Receiver and winds up the concern. The operation of this law in times of pressure is, to say the least, unfortunate. When such times come, the banks, which should be ready though discriminating lenders, are compelled, in order to preserve their due proportion of cash, to refuse accommodation and to call in loans, with the result that the financial strain is aggravated, and one of the objects of the regulation is defeated.

To business men in the States, there is open the obvious retort that this want of elasticity in their banking system is also a characteristic of our own. This is only too true, although it may be pointed out that the occasions when the inelasticity of our currency arrangements hampers or endangers commerce are at least less frequent than is the case in New York with the American system. In financial matters, however, as distinct from political, a *tu*

quoque does not count. The admitted defects of our own currency system need not debar us from pointing out in a perfectly friendly fashion the need of reform in the regulations of other countries, especially when, as in the present instance, the defects of the foreign system compel us to have recourse every autumn to protective measures which impose much uncertainty and unnecessary hardship upon borrowers on this side.

CHAPTER XV.

THE REGULATION OF NOTE ISSUES (*a*).

IT is desirable to state candidly, and at the outset, that the regulation of paper currency is a subject which, in itself, is neither interesting nor inspiring. It is, nevertheless, a matter which has to be mastered, so we must do the best we can with it, striving to be, if not interesting, at least clear; for, as you know, bank notes in many States are a most important feature of the currency, and are an important feature in this country still.

Now, there are one or two preliminary points of difference between metallic money and paper money, in addition to the obvious difference. The main difference is that paper money will only circulate within the issuing country. It is not exportable. It is true that bank notes are very readily accepted abroad, but not as currency. Those of you who have been on the Continent will have found out for yourselves that hotel keepers will readily take Bank of England notes from you in payment of your bill, and you may also have found that you can generally get a good rate of

(*a*) A lecture delivered at North Wales University College, Bangor. Reprinted from the *Bankers' Magazine.*

exchange for such notes, but neither the hotel keeper nor the foreign banker who changes them takes them for the purpose of circulating them. He takes them for the reason that they constitute a very convenient form for remittance on London. One result of the fact that paper money, unlike gold, is not exportable, is this: that if too much paper be issued by either the Government or the banks of a country, it is not the notes which leave the country, but the gold. We must bear this specially in mind when we come to deal with inconvertible paper.

Fortunately, of the two classes of paper money—the convertible and the inconvertible—we in England have only experience of the former kind. We know nothing of over-issues of inconvertible paper, and our task to-night is to run rapidly through the various systems on which convertible note issues are or have been based. As you are using Professor Jevons' work on Money as a text-book, I will so far as possible confine myself to his headings, taking the liberty, however, of omitting all reference to six out of the fourteen systems with which he deals.

The first method of regulating paper currency is what Jevons describes as the Simple Deposit System. There need be no difficulty at all in either explaining or understanding this system. It amounts to this. You deposit with a bank a certain quantity of gold, and against that gold the bank issues notes for exactly the same value. This is the "root" system; the one out of which all the others have sprung, and of which they are merely variations. You will all remember—many of you will be tired of being reminded of it—the oft-cited instance of the London goldsmiths as an

illustration of this system. The London merchants used to find it very inconvenient to have large sums at their offices, and so deposited their money with the goldsmiths, whose notes—"goldsmiths' notes"—they received in return. Notes so issued were, as has been said, really like dock warrants or pawn tickets. They represented an exact equivalent held. "Deposit your gold with us," said the banks working under this system, "and we will issue to you the exact equivalent in notes, against which we will hold the full amount of gold." This is, of course, the safest of all forms of note issue, and, as has often been shown, it has one or two advantages. It saves the wear and tear of the actual coin, and the notes so issued are less cumbrous and much more easily counted than the gold they represent. The system, however, has obvious drawbacks, especially from the bankers' standpoint. One of these is the loss of interest which necessarily accrues when no part of the gold held against the notes can be lent or otherwise productively employed; when it is simply lying fallow. Another drawback of this system has been mentioned; one which is now of less importance than formerly, but which still has to be reckoned with in some States. When banks hold large sums of money against their note issues, there is always a temptation to the Government of the country to borrow the money so held, with or without the permission of those to whom it belongs. Here is a bank holding large sums of money idle, and here also is a Government vexed with the "eternal want of pence." We all know

> "How oft the sight of means to do ill deeds
> Makes ill deeds done."

Governments in the past have been known to yield to the temptations so presented, and have "borrowed" the money represented by the notes issued to and held by the people. Even modern Governments have been known to adopt a course somewhat akin to this, but they do it under the decorous pretext of "suspending specie payments." The British Government did it in order to carry on the great war with France. The French Government did it in order to meet the immense financial demands caused by the war with Germany. A consideration of this, however, belongs to the subject of inconvertible paper, and need only be mentioned at the moment. In such cases the Government decree that notes issued by the national bank shall, during their pleasure, be no longer convertible into gold at the will of the holders, and they then borrow from the bank some portion of the large sums of gold previously held as security for the notes, but no longer needed for that purpose.

We can now go a step further in tracing the development of note issues, and consider the Partial Deposit System. This arises naturally from the simple deposit system, and affects us all because it is the system on which the note issues of the Bank of England are based. Under this system the Bank is empowered to issue notes up to a certain amount, without any gold to represent them. They are issued against security, and this part of such issues is called the fiduciary issue. The legislature of this country, in the Bank Act of 1844, said in effect to the Bank of England: "You may issue your notes up to the amount of 14 millions sterling without holding any gold against such issue, but against every note issued

beyond that figure, you must hold in your vaults a full equivalent in the precious metals." This amount of 14 millions has, as you will all be aware, been considerably increased since 1844. Under the Bank Act of that year the Bank of England was further empowered to increase its fiduciary issue—its issue against securities—to the extent of two-thirds of the lapsed issues of the country banks. This power has been freely exercised. Owing to various causes, of which bank amalgamations are among the chief, many country banks have ceased to issue notes, and the fiduciary circulation of the Bank, which stood at 14 millions when the Bank Act was passed, now stands at £18,450,000. Up to this amount, therefore, the Bank may issue notes which are not represented by gold, but for every note issued beyond that figure the Bank has to hold an equivalent amount of gold in its coffers or in its vaults. I say "gold," because, although the Bank has the power to hold a certain proportion of silver, that power, for obvious reasons, has been little exercised. This, then, is how our paper circulation is regulated so far as the Bank of England is concerned—an issue up to 18 millions odd against securities; any further issues against gold. This is an example of the partial deposit system. It will be clear to you that, so far as that part of the note issue which is made against gold is concerned, there is no profit accruing to the Bank of England. As a matter of fact, the Bank is a loser thereby, inasmuch as it has to take measures for the safe keeping of the gold, and to bear the expense of manufacturing and printing the notes.

This brings us to the third system, which the

text-book writers call the "Minimum Reserve System." Under this, the issuing bank or Government must keep on hand a fixed amount of gold against its notes in circulation. This system of minimum reserve is not a good one, because it is not adapted to meet a time of monetary pressure. When that pressure comes, the bank is bound to hold its statutory amount of gold, and this fact ties its hands in the matter of further issues at the very time when such issues are most required. As Jevons says, a bank which works under this system is in the position of a man who is bound to keep a shilling in his pocket, so that he shall never starve. When he is reduced to that shilling, it is useless to him, because he cannot part with it.

Then there is a variation of this system—what is known as the Proportional Reserve System. Under this, the Government says to the bank or banks, "You must keep in hand a stock of gold bearing a fixed proportion to the amount of your notes in circulation. You must hold gold to the extent of one-half or two-thirds" (as the case may be) "of the amount of notes outstanding." This system has its good points. It gives the note holders an assurance that the notes they hold have at any rate something solid behind them, and something of definite amount. It, also, is defective, however, inasmuch as if the reserve of gold runs down, the bank is compelled to restrict its issue of notes, with the result, once more, that at a time when everybody wants notes it is not in a position to supply them. Its stock of gold is decreasing, and its issues have to be correspondingly curtailed.

Another method by which note issues have been regulated, and by which the issues of our own country

banks are regulated to-day, is the Maximum Issue System. In cases which come under this category, the Government imposes no conditions whatever on the issuers as to the amount of gold to be retained against their notes in circulation. Each bank is left to provide for the redemption of its notes as best it can. The only restriction imposed upon it is that its issues must not at any time exceed a certain fixed figure. This is the sole limitation, in the matter of note issues, imposed upon the English country banks by the legislature. The country banks, in the first instance, were asked to make a declaration showing the average amount of their notes in circulation during the twelve weeks preceding a certain date prior to the passing of the Bank Act, and that amount was then fixed as their maximum. At the present time a return of the amount of notes in circulation is required from the country banks, and they are not allowed to go beyond the original figure. This is a good arrangement in so far as it limits the extent of the trouble which may be caused by the failure of any provincial note-issuing bank, but it, of course, gives no security whatever to the public for the redemption of the notes they hold.

We now come to the system in force in Germany. When Germany was reorganizing its financial and banking arrangement after the 1870–71 war with France, it looked to England for the basis of its reforms, and modelled its system of note issues upon our own, but with a most important difference. The method adopted is known as the "Elastic Limit System."

What the German legislature said to the Bank of

Germany in 1875 was, that up to a certain amount (since increased, as in the case of the Bank of England) it might issue notes without keeping gold against them, and that beyond that figure it might issue against an equivalent amount of gold held. Up to this stage the English and German systems are similar. There are differences, but they do not affect the principle. But now comes the distinction. Supposing more notes are wanted in Germany after the authorized limit has been reached, and the gold held by the Bank of Germany will not warrant any further issue. Under these circumstances the Bank of Germany is allowed to issue further notes without holding gold behind them, but it has to pay a tax at the rate of 5 per cent. per annum to the Government for so doing. It is evident that so long as the bank can avoid exceeding its authorized limit it does not exceed it, because of the 5 per cent. tax. But supposing there is a great demand for currency, and considerable pressure for accommodation, then the Bank does increase its issues, notwithstanding the tax, to the great advantage of the business community. This, put in the very baldest outline, is the elastic limit system as adopted by Germany. You see the points of similarity and the points of difference between the regulation of the note issues of the Bank of England and the Bank of Germany. In both cases notes may be issued up to a certain limit without being represented by gold. In both instances notes issued beyond that limit have to be represented by an equivalent amount of gold. But whereas the Bank of England cannot, without breaking the law, exceed the limit of its fiduciary issue, the Bank of Germany can and does exceed its limit, the

only condition being that it has to pay the tax. I have never been able to understand why the Bank of England has not been given the power which the Bank of Germany enjoys. Germany copied our system in its main outlines; why should we not copy Germany in the one direction in which it has improved upon our methods? To do so would be to save the commercial community much anxiety and needless panic in times of financial storm and stress. In such times, when merchants here see the Bank reserve dwindling, they get frightened lest, with our rigid system of issue, there will not be enough notes to go round. The panic spreads, and then, when things come almost to the worst, the law has to be broken and the Bank Act suspended, as in 1847, 1857, and 1866. The end which in this country is gained only after much excitement and the infringement of the law, is in Germany gained quietly by an arrangement expressly provided by the law. There is no panic, no rushing hither and thither. There are no "pallid deputations" to the Chancellor of the Exchequer, but a simple automatic arrangement. The distinction between the two systems has been put as tersely as it can be put by an American writer: "The distinguishing novelty of the German law is the power given to increase the uncovered issue beyond the limit, subject to the payment of the tax of 5 per cent., in order to secure a certain degree of elasticity at the point where, under English law, the rigidity of the line drawn by Peel's Act has sometimes presented a frightful dilemma."

Another method which has been suggested is the Documentary Reserve System, a system under which good bills and high-class stocks are to be held as

security for the note issue. This method of issue need not be taken seriously. Picture the condition, during a time of monetary pressure, of a bank with such a reserve! Its notes are presented for payment, and it holds against them stocks which can only be sold, if at all, at an enormous sacrifice, and bills not yet due which it is impossible to rediscount.

Another method of issue which has been advocated is the Free Issue System. This is a sort of "go-as-you-please" arrangement. Under it the Government would say to the banks, "Issue as many notes as you like; it is your own affair, not ours." There is an extreme school which thinks this a proper course; which considers that the regulation of the paper currency is not the concern of governments; but with this view it is impossible to agree. A free system of issue of bank notes is like what is known as "free love" or "free trade in intoxicants." It may appear fascinating, but it does not work. For the protection of the public the Government must intervene, and as, in affairs matrimonial, the law limits the number of wives a man may marry, and in licensing affairs limits the number of licensed houses which it shall be possible for him to frequent, so in the more prosaic matter of paper issues it is desirable that the Government should have a voice. This it has in practically all mercantile States. In this country it says to the Bank of England, "Up to a certain figure you may issue notes against securities, beyond that figure you may only issue against an equivalent amount of gold." To the country banks it says, "Up to the amount which you had in circulation during a certain period before the passing of the Bank Act you may issue still"; to the

Scotch and Irish banks it says—something else, which will be duly considered when we come to deal with the Bank Acts. To every class of issuing bank in the country the Government has, rightly enough, something to say on this subject. Possibly the best arrangement of all is that which obtains in the Isle of Man, where banks which issue notes must deposit with the Government, against the full amount of their authorized issue, gilt-edged securities with a margin. With the secured issues of the National Banks in America you are already acquainted. I will not trouble you, therefore, now with further systems, either past, present, or potential. If you understand those which I have here sketched out in the merest outline, you will have a fair general idea of the methods by which note issues may be regulated.

CHAPTER XVI.

BRANCH MANAGERS AND BORROWING CUSTOMERS (*a*).

THE path of a Branch Manager is by no means always a smooth one. Some of his difficulties arise from the course taken by the Managers of competing Banks in the same locality; others from the shortcomings or peculiarities of members of his own staff; others, again, from the fact that some of his clients—and those not always the most important—seem to have no idea whatever of the value of his time, and do not hesitate to claim a disproportionate amount of it. Add to these troubles the fact that, with his borrowing clients on the one hand and his Head Office on the other, he frequently finds himself "between the devil and the deep sea," and it will be admitted that there is some truth in the statement with which we started.

Not the least of a Manager's difficulties arise in connection with the proposals for advances to which he has to lend a sympathetic ear. At many branches the number of proposals for really good business

(*a*) From the *Bankers' Magazine.*

bears but a very small proportion to the total number of applications received. With proposals on the right lines there is, of course, no difficulty in dealing. Where the security, the duration of the accommodation, and the rate of interest are all fair and acceptable to both parties, the business "does itself." The completion of the transaction is merely a matter of routine. At the other end of the scale are the offers of business which the Manager at once sees to be impossible. In this category are unsecured advances to customers who are either impecunious or who decline to give any indication of their financial position; advances against property on which there are prior charges; loans against assignments of book debts "without notice"; advances to Contractors against Retention Monies in the hands of Corporations; and so forth. It is often exceedingly difficult to make would-be borrowers realize the undesirability of transactions of this kind from the standpoint of the banker.

In between these two classes of proposals, however—between the very good and the quite impossible—there comes a very large class of applications which, although unacceptable as they stand, may be knocked into an acceptable shape, and it is this transmuting process which affords the best evidence of a Manager's fitness for his post. Anybody can grant, or submit to his Head Office, a perfectly good proposal. Anybody can decline a transaction which is obviously impossible. Where the real skill of a bank Manager proves itself is in getting a borrower so to modify an impracticable proposal that it will assume a shape in which it will be acceptable to himself and to his Head

Office. Many a would-be borrower has gone away unsatisfied, and many a valuable account has been lost, simply because the Manager to whom the application for accommodation has been made does not know his business; does not know that it is, in many cases, possible so to transform a crude application for an advance that it shall lead to business which will be both safe and profitable for the Institution which he represents.

It is with proposals of this class—proposals presented in an impracticable form, but capable of being put into a form in which they can be favourably considered—that this paper will mainly deal, and it will save beating about the bush if we take a few concrete cases intended to be at once typical and explanatory of the many which arise.

A Company desires to borrow against a debenture which covers all its assets, and the Directors submit an audited Balance Sheet showing, from their point of view, that the assets are more than sufficient to cover the debenture. The first duty of the Manager to whom the business is offered is, obviously, to make a drastic analysis of the Balance Sheet, putting his own idea against each item on the "assets side" of the value which that item would realize if the business had to be disposed of, not as a going concern, but at a forced sale. If the result of this analysis, as so often proves to be the case, shows that if the worst came to the worst, and the Bank had to realize, the assets would not suffice to cover the amount of the debenture, and the Manager feels that he would not be justified in submitting the proposition as it stands to his Head Office, it by no means follows that he should

turn the borrowers away. The line he should take is to represent to the officials of the Company who are offering him the business (always assuming that he is satisfied or has the means of becoming satisfied with their financial standing) that inasmuch as they are well acquainted with the affairs of the Company in general, and with the value of its assets in particular, and as they assure him of their firm conviction that the advance would be absolutely safe, it is for them to "back that opinion" by putting in their joint and several guarantee for the amount involved, or part of it, promising them that if the proposal be strengthened in this way he will be pleased to submit it for favourable consideration. If they concur in this course, well and good. If they demur, the reasonableness of the suggestion may be pointed out and courteously enforced. If they still demur, they may be given a little time to think the suggestion over. If they refuse, the Bank is better without the business.

Take another familiar instance. Here is a man who wants to buy his business premises, or (and this is more in accordance with present-day topsy-turvy methods of finance) has possibly agreed to buy them and gone so far as to pay a deposit, but has not yet been able to see his way to find the money to complete the transaction, and who also, on being questioned on the point, does not see his way to repay the advance, if granted, by any quicker method than gradual instalments spread over a term of years. Nothing can be easier than to turn this man away; to point out that bankers, who have to keep their funds in a liquid form in order that they may be in a position at all times to repay their depositors on demand, cannot

reasonably be expected to lock up their resources in the manner indicated. This, however, is not banking. The better way is to say (in effect, of course, not in terms), "You want this money to enable you to complete the purchase, and you want it soon. In the precise form in which you put the proposal for the advance before me it is not a banking transaction, and I cannot entertain it; but if you care to give me your assurance that in the event of the Bank, after satisfying itself as to the value of the property offered, making an advance for the time being, you will at once set about trying to effect a mortgage, and will undertake to do it within a reasonable time, the money is at your disposal." If the intending borrower is a sensible man, or, not being a sensible man, is capable of having good sense pumped into him, he will see the reasonableness of this attitude, and, whereas a point-blank refusal would have lost the account and the new business offered in connection with it, the Manager will retain the customer and may make a friend.

Another typical case occurs to one's mind: that of the lady life-renter, who wishes to borrow without security. She is in comfortable circumstances; lives in good style; and is in receipt of a regular income derived from investments in which, however—and this is, of course, the difficulty—she has only a life interest, the capital sum passing to others at her decease. People so situated are very apt, sometimes through causes quite beyond their control, to indulge in what, for want of a better term, we will call "sea-side" finance. Any one who has had to do with banking business at a seaside resort knows that the usual method of the Hotel and Boarding House keeper is,

not to have capital on which they can live until their receipts come in; and not to spend, during the winter, the money they have earned during the summer; but to anticipate during the off-season the profits which they hope to make during the season proper, and to do this, if possible, through their banker. So with these people who are in receipt of life incomes payable quarterly. Every quarter many of them desire to anticipate dividends due on the following quarter day, and wish to do so without putting in security. The desire is natural, but except in certain cases where connected circumstances within the knowledge of the banker render it prudent to run the risk involved, security in the form of a life policy or guarantee should be obtained. Sometimes the suggestion of security gives offence, and the account is lost; but where a customer is properly handled this should not be the case. It is not easy, and it is not necessary, for the Manager to remind his client bluntly that if she died the dividends which she is anticipating would not be received, and that as she is evidently living fully up to her income, and perhaps beyond it, in the event of her decease there would be no estate on which the bank could claim. That is not the way to do it at all. In stating the position of affairs, the risk which the bank would run in making an unsecured advance must be carefully "wrapped up," and the reasonable nature of the request for a policy or guarantee stated with tactful indirectness. A Manager once known to the writer, whose branch was in a town where a considerable proportion of the residents appeared to come within the class now being dealt with, was never known to fail to obtain security in

cases of this kind. No one quite knew how he did it, but the theory among members of his staff was that the secret of his success lay in his appealing (without the least twinkle in his eye), in the cases of clergymen and retired officers, to their "knowledge of the world," and in the case of lady clients, to their "experience of affairs." One cannot venture to recommend this course. In most cases one would imagine it would be distinctly risky. All one can affirm is that when persons in receipt of an income which dies with them apply for an advance, they should as a rule deposit security, and that if the branch manager handles them judiciously he should be able to get them to do so. There are crotchety people who will refuse; there are hot-headed people who will lose their tempers; but it is the business of the Manager to study crotchets and tempers, and to so deal with his customer that his or her idiosyncrasies shall not stand in the way of the reasonable requirements of the bank. The fish must be played with and humoured. It must be allowed to take as much line as it likes. An attempt to jerk it out of the water at the first bite is almost sure to fail.

Having dealt with a few instances, which could be very easily multiplied, it may be well, at the risk, on the one hand, of appearing elementary, and on the other of appearing didactic, to give a few general maxims which may be found of service, not of course to the experienced Manager, who has long since made maxims of his own, but to those whose acquaintance with their managerial duties has been of short duration, or are qualifying for managership.

If there is any information which you feel you ought

to obtain before you can recommend a proposal to your Head Office, never hesitate to ask for such information at the first interview—the interview at which the accommodation is first applied for. Take the bull by the horns, and don't be afraid of him.

Never submit to Head Quarters a proposal which you yourself cannot fully endorse and recommend. You would be astonished if you knew how soon the Officials at your Head Office find out which Managers they can rely on in the matter of advances, and which are the Managers whose proposals have to be very carefully scrutinized. It is well worth your while to be in the former category.

Given the requisite technical knowledge, the best test you can apply to a proposed lending transaction is to ask yourself whether, if the Bank were your own private property, you would be willing to make the advance.

Have a clear understanding with borrowers at the outset, as to (1) the date when repayment is to be effected, or the rate at which reduction is to be made; (2) the rate of interest to be charged; (3) the manner in which the security is to be deposited; (4) the amount of current account balance to be maintained or of turnover to be given.

If the security offered consists of property, and you do not yourself feel competent to estimate its value, stipulate for it to be valued on behalf of the Bank, and for the cost of the valuation to be paid by the customer, whether the business goes through or not. If the title to the property is not sufficiently simple to enable you to judge whether it is good, arrange, *in the first instance*, for the Bank's Solicitor to examine the deeds,

and give your customer a good idea of what this examination of title will cost him.

Educate your customers in the principles of banking. You will find that some of them cannot understand why a Bank should ever require repayment or reduction of a well-secured advance, or why they should be expected (if in London) to keep an adequate balance, or (if in the country) to give a commensurate turnover. That such education is possible is amply demonstrated by the fact that some Managers are always in hot water with their customers over these matters, whereas others are able to enforce the reasonable requirements of Head Office with little difficulty.

These recurring references to Head Office remind one of the desirability of touching upon another very important matter in connection with Branch advances, but the question "How to deal with your Head Office," is too big to be dealt with at the end of an article, if, indeed, it is capable of being treated in an article at all. It is a question well worth studying, however; quite as much so as that which has now occupied our attention; and for this reason we commend its consideration to every Branch Manager who wishes to make his mark.

CHAPTER XVII.

HOW TO DEAL WITH "HEAD OFFICE" (*a*).

Some Suggestions to Branch Managers.

DON'T try to advertise yourself at head office; or, if you cannot help doing so, do it artistically. Suppose, for example, you have recently been appointed treasurer of a representative local association. Don't immediately flood your head office with local papers giving an account of the meeting, a brief sketch of your career, and a verbatim report of your speech after the election. Wait until the distinction is followed by the penalty, and *then* forward to headquarters the request for a subscription. In so doing you cannot help, however reluctant you may be, mentioning the fact that notwithstanding that Mr. A. of the London and Loamshire and Mr. B. of the London and Suburban actively canvassed for the appointment, you were so fortunate as to obtain it by a majority which astonished no one so much as yourself, and that you trust, etc., etc. The height of art is to conceal art.

(*a*) From the *Bankers' Magazine.*

Don't crawl, either to customers or to head office. An erect attitude is more effective in both cases, and has the additional merit of enabling you to retain your self-respect. Remember, on the other hand, that the word "truculent" is not a synonym for the word "erect" in this connection.

There is no harm in occasionally adding as a postscript to your head-office letter:—"11.45 p.m. Since writing the foregoing I have seen Mr. Snooks, and, after a long conversation, have persuaded him," etc., etc., but don't forget that such additions to your letters, if repeated frequently, are apt to pall. Be especially careful, too, not to post such a letter earlier than 11.45. Don't habitually supplement Saturday's letters by a Sunday missive, or at any rate take the precaution, before doing so, of ascertaining that the official to whom you write is not a Sabbatarian; otherwise, notwithstanding the zeal indicated, the object of your further letter may be defeated.

Don't enclose, to be read and returned, rambling and irrelevant letters from customers, especially from lady customers, even when they end on a note of warmest thanks for your unremitting attention to the interests of the writers. If a brief summary of the essential features of the correspondence will not quite meet the case, set a youngster in your office to work to copy out certain passages, including the flowery ones at the end, and run your pen (lightly) through the latter before forwarding the budget.

In dealing with would-be borrowers, don't forget to

ask your awkward questions at the first interview. "Ce n'est que le premier pas qui coûte."

Don't imagine that in your bank there are two classes of officials, one class at the branches trying to obtain and to keep business, and the other at head-quarters endeavouring to refuse and lose it. Give your head-office officials credit for being to the full as anxious to get and to preserve business as you are yourself, and if they decline transactions which you put before them, depend upon it they do so on good grounds and in the interests of the institution as a whole.

Don't side with your borrowing customers against head office. After all, it is the bank which pays the piper, and has the right to call the tune.

Don't call on head office too frequently, especially when there are good appointments vacant and under consideration. The object of your call may be misunderstood. On the other hand, don't hesitate to call for a few minutes once in a way if you happen to be in town. On such occasions it is not advisable, "in order to save time," to produce from your pocket a list of rough notes from which to make verbal replies to questions which have been raised in correspondence. To do this is to convert a highly paid head-office official into your clerk for the time being.

Don't submit a verbal proposal when it is anyhow possible to put it into writing. Call and supplement your written statement, if you will, but remember that "verbal communications corrupt good management."

If a customer or a friend has a son or a *protégé* who, after some years' experience as a schoolmaster or a curate, would like to enter your bank for the sake of improving his prospects, don't trouble head office about it. Nip the application in the bud, even though the applicant "would be content to begin at the foot of the ladder." Apart from general considerations weighing against their applications, these "foot-of-the-ladder" candidates invariably show a tendency, if given a start, to skip the lower rungs.

Unless you have previously satisfied yourself that your general manager comes to town by a workman's train, don't write to head office saying that, unless you receive a wire by 9 a.m. on the following morning, you will adopt a certain course. The device is too thin.

In dealing with requests for advances, don't transmit your customer's proposals to head office in a raw, crude state. Knock them into shape first. A man need not be a banker in order to forward a proposal in the form in which it reaches him. Any one can do that. Obvious amendments and supplements should be suggested to the would-be borrower by the branch manager in the first instance, not left for head office to point out.

Don't, except in very special circumstances, suggest to your borrowing customers that they should call at head office with regard to their affairs. To do so is often a sign of weakness and of inability to say "No." When it is necessary to refer an important client to

head-quarters, take care to send on, in advance, all necessary information, together with your own view of the matter to be discussed.

If your branch is remote, and you have occasion to recommend an advance to Mr. Smith because it would please Mr. Jones, don't forget to say, and on later applications to repeat, who Mr. Jones is, especially if your branch is in "The Principality."

Don't take all the foregoing suggestions too seriously, but realize, on the other hand, that there may be a few grains of truth amid the chaff.

CHAPTER XVIII.

BANKERS AND THE CUSTODY OF VALUABLES (*a*).

IN attempting to define the banker's position in this connection, one current illusion may be summarily dealt with at the outset. It has been suggested that the case of a banker who has had a box of valuables left with him for safe custody, and who has delivered it on the authority of a forged order, is on all fours with that in which he pays away a sum of money on the authority of cheque to which the drawer's signature has been forged; and that, therefore, as he would undoubtedly be liable to his customers for the amount of the cheque, he is equally liable for the wrongful delivery of the box. This contention is quite untenable, and can only have arisen from an entire misunderstanding of the true functions of a banker. The cashing of cheques is a necessary and integral part of banking business. The relation between banker and customer in all that pertains to such payment

(*a*) From the *Insurance and Banking Review*, 1st October, 1895, *a propos* of the withdrawal from the Union Bank of London of the "Langtry Jewel Box."

is simply that of debtor and creditor. The implied contract is to the effect that the banker has borrowed from the customer, and will repay him on demand, recouping himself for the trouble involved in keeping the account by the use of the money deposited. In the case of valuables left with a banker for safe custody, both the transaction itself and the relation between the banker and depositor are on another footing altogether. To take charge of a box for a customer is not a necessary part of banking business at all. Bankers, in order to carry on their own business, are bound to have a strong room, and if customers care to avail themselves, for their own convenience, of the security offered by that room, they are allowed to do so, but the banker obtains no advantage whatever from the transaction, and makes no charge for the facility afforded. Under these circumstances the difference between the two cases should be apparent. In the one there is a mutual advantage; in the other the advantage is entirely on one side, and the difference between the nature of the relationship in the two kinds of transaction has an important bearing, both in fact and in law, upon the banker's position and responsibilities. An ingenious and not altogether unreasonable attempt was made some time ago to get the Courts to affirm that inasmuch as most bankers allow no interest on current accounts, the taking charge of a customer's valuables might be regarded as some sort of equivalent for the benefit derived by the banker from the free use of his customer's balance, and that the banker was therefore not entitled to the exemption from special care which would otherwise accrue to him as a "gratuitous

bailee." Cases have been decided in the Courts which appear to lend some support to this suggestion, but fortunately for bankers, the contention was not upheld in the leading case bearing on the subject. In that case (*Gibling* v. *McMullen*) it was decided that any advantage the banker might derive from the use of his customer's money is a merely incidental and fortuitous advantage, and that the accommodation rendered by him in the matter of safe custody is a gratuitous accommodation. As, then, the taking charge of valuables for his customers is not part of a banker's business, but is undertaken by the banker without remuneration or advantage to himself, the banker's position is simply that of a gratuitous bailee, as distinct from that of a bailee for hire, and any claim made by a customer for the loss of his securities must be considered in the light of this relationship.

It should be needless to say that the fact that the banker is not paid for the service which he renders in the matter under consideration does not absolve him from all responsibility. It merely absolves him from any responsibility of a special kind, and entitles him to claim that if he has taken as much trouble to safeguard the valuables of others as he habitually takes for the security of his own, he is not answerable for any loss which may occur. In the words of the judgment governing the point, "the negligence for which alone the bankers could be made liable would have been the want of that ordinary diligence which men of common prudence generally exercise about their own affairs." If one might leave the musty atmosphere of the Courts for a moment and come to

everyday life for a homely illustration, the position of a banker who gratuitously takes charge of a box for a customer differs as much from that of any person who performs a similar service for payment, as that of a man who allows a friend to keep a bicycle in his outhouse differs, in the event of anything happening to the machine in question, from that of the regular dealer who affords similar accommodation and makes a charge for it. Care has to be exercised in both instances, but the degree of care required from the man who renders the service gratuitously is less than that demanded of the man who is paid to render it.

These are the broad principles governing both the position of the banker and his responsibility, and the application of them is well illustrated in an Australian case which is often quoted, and to which we have already referred. In that case the plaintiff, who lived at Hobart Town, opened an account with the Melbourne branch of the Union Bank, and left in the care of the bank a box containing debentures and other securities. The box was kept in an underground room to which access could only be obtained by passing through an apartment in which a cashier always sat during the day, and in which a messenger slept at night. This strong room had two iron doors which were opened by separate keys, these keys being during the day in the charge of the cashier, and at night in that of the cashier and another officer of the bank. Beyond the strong room where the customer's box was lodged were two other rooms, in the outer of which the bank's stock of gold was kept, and in the inner, its unsigned notes and more gold. The manager kept

the key of the outer of these rooms, and the directors that of the inner. The cashier, until then a trusted servant of the bank, abstracted the debentures from the customer's box and absconded. The plaintiff brought an action against the bank, and obtained a verdict for over £10,000. The verdict was set aside in the Supreme Court of Victoria, and the further appeal to the Privy Council was dismissed with costs by the Judicial Committee, which held that the means employed for the protection, both of the bank and of the plaintiff, were such as any reasonable man might properly have considered amply sufficient. This case was decided in 1868, and the inference since drawn from it has been that nothing short of gross negligence can render a banker liable for loss arising in the course of transactions of this kind.

So much, then, for the position of the banker; for his responsibility in that position; and the application of the principle on both points to a test case. Whether the practice of bankers in the matter is satisfactory is another question. As a matter of experience the practice seems to vary very largely. Some bankers give their customers no receipt at all for boxes left for safety. Others give a receipt which expressly disclaims responsibility. Others yet give one which states that the banker will take as much care of the articles deposited as he would if they were his own. Whatever the custom, however, the law is clearly laid down, and applies to all alike. The service rendered by the banker being a gratuitous one, the question of whether he shall bear the loss when anything goes wrong with the valuables deposited with him is to be decided by the test of whether he has exercised ordinary care

in the matter. If he has he is exonerated. If he has not he must take the consequences. This is the general principle on which such cases are decided. Its application to any given instance should not be difficult.

CHAPTER XIX.

FIFTY YEARS OF THE BANK ACT (*a*).

BY a curious coincidence, the present month is the anniversary of two events of the first magnitude in the history of English banking. The Bank of England completes the second century of its existence, having been founded in July, 1694, and the much-canvassed Bank Charter Act of Sir Robert Peel celebrates its Jubilee, being dated July, 1844. Either of these anniversaries would provide food for discussion, but as we have already dealt at some length with questions very closely connected with the former, we take the present opportunity of discussing the Bank Act, confining our attention principally to a few of the more important criticisms which the measure has provoked. When, as is the case with the two great departments of the Bank of England—the Issue Department and the Banking Department—a decree of separation has been in operation for fifty years, there should be little difficulty either in reviewing calmly the causes which led to the separation, or in estimating with some attempt at impartiality the

(*a*) *Insurance and Banking Review*, 2nd July, 1894.

results of the divorce. The subject is, of course, a highly controversial one, and we are not sanguine enough to imagine for a moment that our views upon it are likely to meet with the approval of all our readers. The stage at which we shall probably part company with some of them will be that at which we commence to discuss whether the security of the note issue aimed at by the Act has been purchased too dearly; whether that end might not have been compassed by a measure less harmful in other respects than the Act of '44.

The immediate *raison d'être* of the measure was the necessity which arose in the summer of 1844 for revising the Charter of the Bank of England. Sir Robert Peel took advantage of that occasion to review the whole question of the currency, and to carry out certain doctrines with the view not only of placing the issue of notes upon a more secure foundation, but of preventing the recurrence of disastrous monetary crises such as had occurred only too frequently in previous years. His aim was a twofold one: to regulate the currency and to improve the basis of credit. Until then, both the Bank of England and the other banks of issue had been free from legislative interference as to the quantity of notes they should issue, and one of the standing charges against the provincial banks was that they had used their freedom in such a manner as to aggravate the severity of any financial stringency which might arise from an adverse foreign exchange and consequent drain of bullion. The efforts made by the Bank of England to check the drain by contracting its own issues, with a view to lowering prices and encouraging the export of goods and the inflow of

specie, were, it was argued, entirely counteracted and nullified by the action of the country banks, which increased their issues to a corresponding extent, and so prevented the action of the Bank from attaining the desired effect. This, it was said by the friends of the Bank Act, must be put a stop to by a curtailment of the power of issue enjoyed by the provincial banks. It was further alleged that mere convertibility did not in itself furnish sufficient security against excessive issues, and that for this reason again a legal limit was desirable. The line taken by Sir Robert Peel was "that by the expansion or contraction of banknote issues, the prices of commodities could be raised or lowered at pleasure, and that by such increase or diminution of prices the foreign exchanges could be corrected, and an undue influx or efflux of bullion arrested." The currency of the country, he held, consisting as it did partly of paper and partly of gold, should be so regulated as to fluctuate precisely as it would if it had been entirely metallic, and the concrete form in which it was sought to embody these ideas was the division of the Bank of England into two totally distinct and separate parts, one of which, to be called the Issue Department, should be concerned solely with the issue of notes, while the other, the Banking Department, should deal with the other branches of the Bank's business. The function of the Issue Department was strictly and expressly defined by the statute. To the extent of £14,000,000, below which sum it was correctly assumed that the circulation was not likely to fall, it was empowered to issue notes against securities. Beyond that amount every note emitted was only to be issued against gold of the

same value, so that the action of the department was automatically confined to the exchange of gold for notes, and *vice versâ*. The working of the Banking Department, on the other hand, was left as before to the discretion of the directors of the Bank. With regard to the country banks, no new banks of issue were to be established, no banks not issuing notes at the time of the passing of the Act were to be allowed to commence issuing, and the issues of existing banks were to be strictly limited to the amount issued during a certain previous specified time. The Act contained numerous other provisions, many of them of great importance, affecting both the Bank of England and the other banks;[1] but those here given in briefest outline are the principal, and are those around which controversy has chiefly raged.

The opposition which the measure has encountered has had both a theoretical and a practical side. On the one hand, the soundness of the principles on which it is founded has been called into question; on the other, exception has been taken to the practical effects of its working. Taking the theoretical objections first, it has been pointed out that a fundamental fallacy of the Act was the assumption of its supporters that notes and gold can vary in value when compulsorily convertible. Peel held that because bullion followed the course of the foreign exchanges, notes should do so in exactly the same proportion, and that if notes were not decreased when bullion was leaving the country, they could not be kept at a parity with gold. He believed, to quote his own words in introducing the measure, that "unless the issuers of paper vigilantly observe the causes which influence the influx and

efflux of coin, and regulate their issues of paper accordingly, there is danger that the value of paper will not correspond with the value of coin." It is scarcely necessary to point out the absurdity of this belief, which involves the assumption that if the holder of a convertible note finds that gold is becoming more valuable than paper he will refrain from instantly demanding gold in exchange for his note. Another mistake made by the framers of the Act was the further assumption that the presentation of notes constitutes the only method of obtaining gold from the Bank. It was against that method alone that they provided, whereas it is obvious that gold can be also withdrawn from the Bank by cheque, although this means of reducing the stock of bullion was entirely ignored; so that the supporters of the measure, having two leaks to stop, expended all their efforts upon one, and left the other untouched. A further fact which they altogether failed to realize was the immense importance of the Bank rate of discount as a corrective of the foreign exchanges. It is all very well to say that if the amount of the circulation can be reduced, the reduction will act upon prices in such a way as to arrest the drain; but it must be remembered that this operation is very indirect, and takes considerable time to accomplish, whereas the simple expedient of raising the rate of discount has an effect upon the foreign exchanges both immediate and direct. The effect of a drain of bullion upon the circulation of the country was also exaggerated. As a matter of fact, a drain would have to be exceedingly severe and prolonged before it could tell directly upon the circulation at all. It falls, in the first instance, upon bankers' reserves,

and not for some time, and then only in a very indirect way, upon the amount of money in the pockets of the people. The group of men who were responsible for the Act were surely further mistaken in assuming, as they did, that it is in the power of bankers to increase or decrease at pleasure the amount of money in circulation. Bankers may, it is true, withdraw their notes, but the place of the notes will be taken by coin. It must be remembered that the banker is merely a passive agent in the matter, and that he can neither make people carry about with them more money than they require, nor prevent them from obtaining all the currency they need through the good offices of their bankers. It would be easy, also, to dwell upon the peculiar sense of proportion shown by legislation which strictly limits the dwindling function which bankers exercise with regard to notes, and leaves untouched the increasing and far more important function which they discharge in receiving and dealing with deposits.

But while these and other objections which have been brought against the Act on the score of principle have never yet been satisfactorily answered, the actual working of the measure affords equally strong proof against it. The Act was passed in the full belief on the part of its promoters that it would check a drain of gold in its incipient stages, and so prevent panic; yet only three years after it had passed, as well as on two critical occasions since, a practical confession of failure had to be made and the Act suspended in order to save the credit of the country. As a matter of experience, it has been found that the Act restricts the currency at the very periods when additional

accommodation is required, especially for internal use. Merchants know that the supply of notes available is limited, and that if a very large number of people withdraw them, there will not be enough to "go round," and as every one naturally tries to avoid being "left," more notes are taken from the Bank than are actually required, and are kept in hand to meet contingencies. Then again, although Government can be appealed to in the last resort to temporarily suspend the Act and allow notes to be issued against securities instead of against gold, it is not until the last moment that such interference can be sought, and in the meanwhile firms of good standing, holding sound securities which they are desirous of pledging, are either unable, through the restriction of accommodation, to get the advances which they need to carry on their business, or are only able to obtain them at panic rates. Yet another charge laid at the door of the Act—not the Act of '44, which only affects England, but that passed in the following year and applying to Scotland and Ireland—is that at a time of the year when the demand upon the bullion at the Bank of England is most pronounced, an additional and unnecessary demand is made upon it under the Act by the necessity of transmitting coin to Scotland and Ireland to be there held against the excess circulation of the Scotch and Irish banks. Yet another serious defect has been its effect in increasing the number and violence of the fluctuations of discount rates. There is no need to enlarge upon the importance to a commercial nation of a steady rate of discount, and upon the harmful effect of numerous and violent changes, and yet we find that whereas before the date of the Bank Act the fluctuations

were exceedingly few, ever since that time there has been a marked increase both in the number of fluctuations and in their range, with the inevitable result of adding to the already sufficiently numerous elements of uncertainty in the trade and commerce of the country. It is, of course, probable that even if the Act had not come into force, the number of changes in the charge for the use of floating capital would have increased from other causes; but there is the strongest presumption that it would not have increased to anything like the same extent, and we should not have found, as we now do, that the changes in the Bank rate of this country exceed in number those of any other civilized community.

It would not be difficult to continue still further the list of objections to the Act which have here been rapidly sketched. It is probable, however, that enough has been said to indicate that the complaints made against Sir Robert Peel's measure, both on principle and from experience, have considerable foundation. Fortunately, there are one or two reasons why the Act does not work so much mischief as it might. One is that it can at least be relaxed at a pinch, and although it is little short of ludicrous that a measure should have to be suspended directly the circumstances occur which it was expressly intended to cope with, yet the knowledge that the suspension is possible, and will take place if necessary, is an element of compensation not to be overlooked. A further mitigating influence may be found in the fact that bank notes, which once formed so important a part of the currency, and which are alone affected by the Act, are insignificant compared with cheques, and are becoming more

so every day, so that the power of the measure for mischief is comparatively limited. The faults and shortcomings in the working of the Act which have been pointed out in the foregoing remarks preclude the advocates of the measure from falling back on that stock defence of so many doubtful British institutions, both financial and political, to the effect that, although theoretically indefensible, they are found to work tolerably well. In the present instance, the principles embodied in the measure are many of them fallacious, and its actual working, while failing to mitigate the evils it was designed to remove, has created other evils in addition. The violent differences of opinion which seem especially to characterize the discussion of questions of currency have alone enabled the measure to survive for so long a period as fifty years.

CHAPTER XX.

THE LIVERPOOL BANK FRAUDS (*a*).

THAT considerable interest should be shown in the recently discovered losses of the Bank of Liverpool is not at all surprising. Here is a case in which, by a series of carefully planned and skilfully executed frauds, requiring for their carrying out the co-operation of a number of persons, and extending over a considerable period of time, a bank of standing has been victimized to the extent of £170,000. Both the amount involved and the ease with which the frauds seem to have been carried on undetected invite comment; and certainly comment has not been lacking. Business men are asking each other whether the elaborate checks and precautions which they have always understood to be in operation in banks for the prevention of defalcations are as effectual as has hitherto been thought; and bankers themselves, throughout the country, are narrowly

(*a*) From *The Economist*, 30th November, 1901. Written in response to a request from the Editor for a "reassuring" article, if justified, with regard to the extensive frauds on the Bank of Liverpool by one of its clerks.

examining their system of working with a view to prevent a repetition of such losses in their own case.

The significance of the transactions which have given rise to this discussion may, however, be easily overrated. From the commercial standpoint, the standpoint of the ordinary bank customer, there is not the least reason for disquietude. Whoever may have to bear the ultimate loss—and we are pleased to note that this loss will in all probability be much less than was at first anticipated—the customers whose cheques are said to have been forged will not be the sufferers. A banker is presumed by law to be acquainted with his customers' signatures, and if he pays away money against cheques of which the signatures have been forged, whether by his own clerks or any one else, it is he, and not the customer, who has to bear the penalty.

The problem raised by the Goudie frauds is mainly a banking one, and as such is well worthy of consideration. It is in the light thrown upon the internal mechanism of banks by such occurrences as these that flaws in working are noticed and corrected, and bankers are naturally looking closely into the transactions in question with a view to prevent, so far as regulations can prevent, a repetition, in their own banks, of such irregularities—irregularities which are the more surprising because, unlike most banking defalcations, they appear to have been the work of a man who never came in contact with either the cash, the customers, or the securities of the bank. Goudie simply had charge of one of the bank's ledgers. When cheques purporting to be drawn by the bank's customers whose accounts were kept in

his ledger came forward, either through the clearing or direct from other banks, they were entered in a subsidiary book, and it was then his duty to examine them, pay them if in order, and post them to the debit of the respective accounts, his ledger entries being afterwards compared with the subsidiary books, and checked. This was what should have happened; but, in the case of the cheques which Goudie is alleged either to have himself forged or to have enabled others to forge, it did not happen. The official statement of the matter is to the effect that, instead of debiting such cheques, when they reached him, to their respective accounts, he suppressed them, and, by an ingenious device (which the bank authorities very naturally do not describe), circumvented both the daily and the weekly check upon his work.

The suggestions which have been made both as to the exact way in which the frauds were carried out, and as to the manner in which the difficulties presented by the daily and weekly audit were overcome, are conflicting, but for our present purpose this is of comparatively little moment. After the revelations which have been made, no practical banker will have much difficulty in understanding the plan of operations adopted, though, for reasons which will be sufficiently obvious, we refrain from pointing out the only way in which the thing can have been carried through. What concerns us, and what bank shareholders and bank managers throughout the country are concerned about, is not the particular instance, but the general problem it suggests; not the method, but the moral; not, in short, the precise manner in which an individual ledger-keeper is said

to have robbed a particular bank, but the much larger and more important question which the occurrence suggests—the question whether banks in general are liable to be victimized by frauds of a similar kind.

Writing with some knowledge of internal banking organization, and of the precautions generally adopted with a view to preventing fraud of every kind, we have no hesitation in affirming that in the case of the very great majority of banks, frauds on the lines and to the extent of those under notice would, under the existing system, have been either prevented or soon discovered. We are considering, it must be remembered, not small branches, where each clerk has necessarily a considerable variety of duties to perform, and where independent checks are comparatively difficult to arrange. We are dealing with the case of large offices, where such checks both can be and are enforced. To carry out a series of frauds on the lines of those under consideration, there must be large accounts, and small branches do not have a number of large accounts; consequently this particular phase of the problem does not concern small offices, or concerns them only to a limited extent. What the public would like to know, out of pardonable curiosity, and what bank shareholders and directors would like to know for more pressing reasons, is whether in large bank offices, as a rule, there is in existence, and in working order, a system of precautions which renders such frauds most difficult to perpetrate, and, if perpetrated, most easy to detect.

Without going at all into the intricacies of bank

book-keeping—since into these even so interested a person as a bank shareholder would probably not care to follow us—we propose to indicate quite briefly a few of the rules which are in force in most large banks with a view to preventing and checkmating frauds on the part of those who keep the books, and which should be adopted by all; rules the universal observance of which would place such a fraud as that under consideration beyond the bounds of possibility.

The first of these regulations is that cheques presented for payment, through the clearing or otherwise, are never to be paid and posted by the same officer. The clerk who posts should not be the clerk who pays or who marks for payment. In some banks this rule is so strictly enforced that if a ledger-keeper should find, among his "stuff," a cheque which a cashier has omitted, even through an obvious oversight, to cancel, he has to take it to the cashier for cancellation. Many a fraud, which would otherwise be possible, is prevented by this arrangement.

A further precaution taken is to change the bookkeepers about, preferably at irregular and arbitrary intervals, so that the same ledger or cash-book shall not always be in the charge of the same clerk. Such a measure in itself has the effect of causing the possible irregularities to be detected, whilst the mere knowledge that it may be carried out at any moment has a still more salutary preventative tendency. It is said that there are well-conducted banks, both in London and in the provinces, which have not hitherto considered it necessary to adopt this plan; but when the full significance of the Liverpool affair comes to be

realized, these will be reduced to a negligible number.

Then, too, every bank, without exception, has its ledger entries checked daily, and in all offices which have any claim to be well-regulated such checking is performed, not by the book-keepers themselves, but by independent officers; by men who have nothing whatever to do with making the entries they are called upon to verify. If the bank allows the man who makes the entries in its books to check them, it at once gives a loophole for manipulation. Such verification, too, should not be done fitfully during the intervals of other work, but at one time and away from the book-keeper. Apart from the foregoing, there remains the additional periodical comparison of the ledgers with the cash-books. Once a week, or once a fortnight—the shorter the interval the better—the two sides of every customer's account are extracted from the ledgers and tried against the preliminary cash-books, debit and credit, in which they are entered; in other words, the entries which have previously been checked in detail are now checked in totals, and the balances are also compared. The feature of the Liverpool frauds which has surprised bankers most, is the way in which these further periodical checks appear to have been circumvented. It will be found that the fact that they were successfully evaded will lead to a change of system on the part of some banking houses. At present there are banks which allow the clerks who post the ledgers to take out the figures for purposes of verifying the totals, whilst others—the majority—place this task in independent hands. The second of these courses is

the safer, for in the multiplication of independent checks the way of safety lies. The adoption in all large offices of the safeguards which have here been touched upon—safeguards already in operation in the majority of instances—would render the kind of fraud against which they are directed as difficult as human ingenuity can make it.

The task of attempting to reassure those who may be in need of reassurance as to the general efficiency of banking precautions against a certain type of fraud is not altogether a pleasant one, because incidentally it appears to cast a slur upon the whole of the banking community. Those banking men, however—the vast majority, of course—for whom no precautions are needed recognize as well as any one the necessity of making regulations which shall give no chances to the few black sheep in their midst. If any testimony be needed as to the efficiency and the absolute honesty with which banking business is conducted on the whole, it may be found in the infinitesimal amount of error and fraud which occurs in proportion to the huge volume of the country's banking transactions.

CHAPTER XXI.

THE FAILURE OF DUMBELL'S BANK (*a*).

THE suspension of a bank in so remote a part of the kingdom as the Isle of Man would not, under ordinary circumstances, be a matter of general concern, but some of the considerations suggested by the disclosures made at last Monday's meeting of shareholders render the failure of Dumbell's Bank worthy of more than local attention. Amongst these must be classed the distinctly unusual sequence of events attending and following the suspension, and the strong light these throw upon some of the weak spots which even yet survive in a banking system so carefully organized and so perfected as our own. When a bank with the record and reputation of Dumbell's, holding Government and other public moneys, implicitly trusted by all classes within the area of its operations, publicly declared by its directors so recently as last July to be in a thoroughly sound and prosperous state, and paying its shareholders a dividend of 18 per cent. per annum, goes suddenly under, even the briefest study of the circumstances

(*a*) From the *Economist*, 17th February, 1900.

should prove of interest to a wider circle than those directly affected.

The immediate causes of the bank's difficulties stand out clearly enough. They are admitted to have been the lock-up of capital resulting from disproportionately large advances to single borrowers, especially to companies, and the granting of accommodation on insufficient security—in other words, to a disregard of two of the elementary canons of sound banking. To these should be added, as a minor factor, the active part which the principal permanent official of the bank was allowed to take, as a director, in various commercial undertakings with which the bank had extensive and intimate business relations. What the clients and shareholders of other banks, and business men generally, are likely to be more interested in, however, is the ultimate cause of the trouble—the manner in which the directors regarded their duties. It is to the directors that those who have dealings with a bank—whether as shareholders or depositors—look to maintain proper checks on advances, to see that the management keeps an adequate proportion of assets in a liquid form, and to exercise a general supervision over the affairs of the institution. These important functions are admitted, in the instance under consideration, to have been either neglected or imperfectly discharged. Responsibility had been shifted from one set of men to another. The shareholders looked, as they were entitled to do, to the directors; of the four directors, two appear to have been content to leave matters to the other two; these in turn relied absolutely and implicitly upon the two chief permanent officials; and these, between them, brought

a flourishing bank into liquidation. This is really the burden of the explanation offered at the shareholders' meeting by Mr. Mylrea, until Monday a director, and now a liquidator of the company. "Our colleagues trusted us; we trusted the manager and general manager, and these betrayed our confidence." Such a statement cannot be regarded as exonerating any one —certainly not the members of the board. The contention of Mr. Mylrea that whatever fault might be laid at the door of the directors as a whole, two of their number were entirely blameless, was chivalrous, but it cannot for a moment be sustained. If such pleas were allowed, the essence of directorial responsibility would disappear. When a company collapses no section of the directors can be freed from responsibility for its affairs on the ground that those who compose it have either virtually abdicated their functions or delegated them to their colleagues. Directors stand or fall together. In the case in point, the two less active members of the board no less than the others figured before the public as responsible for the business. They lent to it the weight of their influence and standing. Presumably they took their fees, and certainly, we observe, the names of both of them, including that of the chairman, appeared at the foot of the last published balance-sheet in attestation of its correctness. The failure may have been immediately due to bad management. In view of what was said at the meeting, there seems no doubt that it was. Some explanation, too, will be expected from the auditors. But the management was allowed too free a hand. It was the neglect by the directors of their principal function which, in this as in so

many cases in the past, was the principal cause of disaster.

Up to this point we have concerned ourselves only with events preceding the failure—with those features of the situation which, though by no means without significance, are unfortunately without novelty. Something must be said in brief with regard to the incidents and negotiations which have followed, and here we find a state of affairs at first normal, but afterwards constituting a distinct variation from the now familiar process of banking amalgamation and purchase. On the placards announcing that Dumbell's had stopped payment appeared a further notice to the effect that Parr's Bank, having entered into a provisional agreement to take over the assets and liabilities of the suspended institution, would commence operations in the same premises on the succeeding business day, and would advance to such depositors of Dumbell's as cared to avail themselves of the facility 10*s.* in the pound on the amount of their deposits. The provisional agreement referred to was read by Dumbell's solicitor at the meeting. It provided, as all such agreements must, for the transfer of the business on the basis of a certified balance-sheet; it fixed the sum to be paid for goodwill at £50,000; and it contained a clause empowering the purchasing bank to withdraw from the provisional arrangement in the event of the liabilities proving, on closer examination, to exceed by more than £20,000 the amount at which they had been stated. It was, however, discovered, after the suspension, but before the meeting of shareholders, that the liabilities had been understated on the balance-sheet by more than £20,000—by how

much more the shareholders were not informed—and Parr's Bank, under the clause providing for that contingency, rescinded the agreement, and declined to pay £50,000 for the goodwill, offering instead, after some negotiation, the sum of £40,000. Both of these facts were communicated to the meeting of shareholders called for the purpose of passing resolutions for the voluntary winding-up of the company and the appointment of liquidators, and an announcement was made to the effect that on discovering the discrepancy in the balance-sheet, the directors of Dumbell's had made a binding agreement with the undisclosed creditors which reduced the previously undisclosed liability to within £20,000. And the director who presided at the meeting advised the shareholders that, in view of this readjustment of the balance-sheet, Parr's were still bound by their agreement, and were therefore still under the obligation to pay £50,000 for the goodwill. On these two contentions, which constitute part of the novelty of the present situation, it seems unnecessary to offer an opinion. It should not be difficult to predict the result of an attempt, in face of an express stipulation for withdrawal, to enforce on a purchaser an agreement based specifically upon a balance-sheet purporting to represent the state of affairs on a given date, but afterwards proving to misrepresent it. Neither should much uncertainty attend the solution of the question whether a goodwill which, when the relative business is a going concern, is valued at £50,000, is worth that sum after the company has suspended payment. These are matters which may safely be left for friendly adjustment between the parties concerned—the liquidators of

Dumbell's and the directors of Parr's. Meanwhile, the most curious feature of the whole business remains to be noted. It is that, despite the policy which is known to have caused the failure of Dumbell's, and notwithstanding the withdrawal of Parr's from the provisional agreement, the shareholders should have appointed as liquidators a director of the one bank and the superintendent of branches of the other. Surely the position is such as to call for the exercise of perfectly independent liquidation.

CHAPTER XXII.

SOME REPRESENTATIVE BANKERS.

I. A Pioneer of Joint-Stock Banking—James William Gilbart

(Of the London and Westminster Bank) (*a*).

ABOUT a year ago, when the Gilbart Lectures on Banking were in full swing, I was asked by an acquaintance in the London and Westminster Bank, "Why were these lectures so styled, and who or what was Gilbart?" The fact that such questions should be possible from such a quarter appears to us in itself sufficient *raison d'être* for the present sketch. If further justification be needed, it is to be found in the interest which centres at the present time, when the Gilbart Lectures are again announced, round the memory of the man who may be regarded as the most successful bank manager of modern times, and as the one to whom, more than to any other, our English joint stock banks owe their rapid development, their present position, and the still greater future evidently opening up before them.

The leading events of Gilbart's life may be rapidly

(*a*) From the *Insurance and Banking Review*.

reviewed. Born in London in 1794, he entered at the age of 19 the service of a London bank, which, after a few years, came to grief in the crash of '25. After some service in a similar capacity at Birmingham, where we find him actively engaged, in the intervals of business, in lecturing and writing on banking and literary subjects, he entered in 1829 the service of the Provincial Bank of Ireland, filling the post of manager, first of the Kilkenny, and afterwards of the Waterford branch. His practical knowledge of banking, acquired in London, Birmingham and Ireland, and the grasp of its principles evidenced by his works, secured him a prominent place in his profession, and pointed him out to the directors of the scarcely formed London and Westminster Bank as a suitable man to direct their new venture. He became its manager in 1833, and continued in that capacity until his retirement nearly a quarter of a century later. One does not often hear nowadays of a man becoming branch manager at the age of 35, and general manager at 39, but it may be remarked in passing that promotion in the banking world was far more rapid in the thirties and forties than it is now, and that Gilbart was a man of exceptional business ability.

As the first general manager of the first great London joint stock bank, he fought and won the battle of joint stock banking. He succeeded in overcoming both the mistrust of the public and the jealous hostility of existing institutions, especially of the Bank of England, and lived, not only to witness the result of his efforts in the rapid growth and prosperity of the concern with which his name will always be most intimately associated, but to see arising on all sides

similar institutions, owing their prosperity, and almost their existence, to his energy and ingenuity. There is no need here to enlarge upon the expedients adopted by Gilbart to defeat the attempts made by the Bank of England to harass the new company and to deprive it of its newly acquired and rapidly growing business. He spoke; he wrote treatises; he contributed to newspapers and magazines; he gave evidence before Parliamentary Committees; he organized deputations to ministers. He succeeded in removing or evading one by one the obstacles thrown across his path, until in 1844, mainly at his suggestion, the joint stock banks had their chief grievances removed by certain provisions of the Bank Charter Act, and in 1854 they were admitted to the clearing house.

But while, to the generation now passing away, the name of Gilbart suggests the successful pioneer and organizer of joint stock banking enterprise in London, to the rising generation it is chiefly connected with the authorship of banking works. With Gilbart's claims as a writer on general topics we are not now concerned. That his literary activity was many-sided may be gathered from the mere perusal of the titles of his works, which were collected and published in a complete series in 1865, two years after his death. On looking through these volumes, one wonders how a man so actively employed in business could have found time for so much literary work of so high a quality; but a partial explanation of the fact is probably to be found in the fact that he remained a bachelor. Among the subjects dealt with are Ancient Commerce, The Social Effects of the Reformation, The Principles of Logic, The Philosophy of History, and a

multitude of other things. It is not, however, by his treatises on general subjects that his reputation as a writer was won; nor is it by these that it will be maintained. For logic we do not go to Gilbart, but to Mill or Bain. For the philosophy of History, unless we go abroad, we look to Lecky. But when we need information upon practical banking, upon the principles which underlie it, upon the theory on which it is based, we turn to Gilbart with a confidence which is not misplaced or disappointed. He may not be a brilliant writer. In point of style he cannot be compared, even in his own special domain, with the brilliant author of "Lombard Street" and "The English Constitution"; but he is a thorough master of his subject, and for this reason, amongst others, his works are well worthy the attention of all banking men who take more than a mechanical interest in their business. His "History of Banking in Ireland" and "History of Banking in America" are becoming somewhat antiquated; but his "History, Principles, and Practice of Banking," revised and brought up to date by Mr. Michie and Mr. Sykes, is, as most of our readers will be aware, one of the standard works on the subject of which it treats.

We should like to be able to deal with other aspects of Gilbart's career. A good deal might be said, for example, of his interest in the educational and philanthropic movements of his time. But "our limits" compel us to confine our rapid sketch of Gilbart entirely to his work as banker and author. There is abundant evidence that his efforts in both capacities were appreciated by those with whom he came in contact. Among other ways, this appreciation found some slight expression, during his lifetime, in the

valuable testimonial presented to him by the directors and shareholders of the joint stock banks; and, at his death, in the fine memorial raised to his memory at Norwood. At the present time, his memory is kept alive by his works and by the lectures which bear his name; but his best memorial is to be found in the growing prosperity of the joint stock banking system, in the organization and development of which he took so prominent a part.

CHAPTER XXIII.

SOME REPRESENTATIVE BANKERS.

II. The Banker as Journalist—Walter Bagehot

(Of Stuckey's Bank and the *Economist*) (*a*).

THE particular set of qualities which combine to make an efficient bank clerk are by no means necessarily the same as those which are required of a good bank manager. Accuracy and neatness we take to be among the main requisites in the one case; judgment and tact in the other. There are, of course, many men whose qualifications would do as much credit to the more responsible as to the less responsible position, but there are good clerks who would make bad managers, and able managers (though for an obvious reason not so many) who would be very indifferent clerks. To the latter class the subject of this sketch undoubtedly belonged. To the end of his days he could not be trusted to correct his own proofs, and his "casting" of a column of figures was unreliable. He would have cut a sorry figure "on the waste" in a large bank, while if he had been a cashier, his "overs

(*a*) From the *Insurance and Banking Review*.

and shorts" would, one surmises, have been far more numerous than is generally considered desirable. Despite all this, he was beyond question an admirable man of business; he had a marvellous facility for getting at once to the heart of a matter, whether an intricate banking transaction, or a money market dilemma; and his judgment in matters of finance was so highly valued that he was consulted on all critical occasions by successive Chancellors of the Exchequer; his opinion in the *Economist* was eagerly looked for and widely quoted, and, at his death, high tributes to his ability were paid by the most eminent statesmen and financiers of the time.

Unlike the subject of our last sketch (Gilbart), Bagehot found his position in the banking world to a large extent ready made. His father was managing director of Stuckey's Bank, and although the son at one time thought of taking up the law as a profession, and read diligently with that object, he decided eventually to enter the bank and take his father's place. Most of our readers would probably have made a like choice under similar circumstances, though they may have some difficulty in picturing themselves declaring, as Bagehot frequently did, that they find business "much more amusing than pleasure." Probably, however, it *is* more amusing from the standpoint of a managing director, especially when it falls to his lot to direct the affairs of a flourishing bank in so delightful a county as Somerset.

But, although Bagehot fulfilled his banking duties with credit and ability, it need scarcely be said here that it is not as a bank manager that he is generally remembered; indeed, to many who are perfectly

familiar with his name (which, by the way, is not French, but English, and should be pronounced accordingly—" Bajott "), it is a surprise to learn that he was a banker at all. It was while editor of the *Economist* that his reputation was really made, and it is as a writer on financial and economic questions that he is, in this country at least, most widely known. Abroad, his work on " The English Constitution," which has been translated into the principal European languages, and is still taken as a text-book in several foreign universities, and his " Physics and Politics," have given him a reputation in other directions.

Bagehot's connection with the *Economist* came about through his marriage in 1858 with a daughter of James Wilson, the founder and editor of that journal, and author, *inter alia*, of a work with which many of our readers will be acquainted, entitled " Capital, Currency, and Banking," which is really a reprint of a series of trenchant articles dealing largely with the Bank Act of 1844. Wilson died two years after Bagehot's marriage, and Bagehot, again with a certain amount of good fortune, but again also with undeniable qualifications, succeeded him as editor, a post which he filled with distinction until his death seventeen years later. These years, our elders inform us, were the " palmy days " of the *Economist*, and they are probably right, though we demur altogether to the implied comparison. There is always nowadays a section of the public ready to decry any paper with a history and a reputation. A little while ago we met a man of this stamp, who assured us that he was able to read *Punch* through week after week from cover to cover without a smile, and this during the

appearance in that periodical of one of Mr. Anstey's masterpieces.

But to return. To most banking men Bagehot is best known, and to many he is only known, by his "Lombard Street." As a graphic description of the London Money Market this book is without a rival. There are about it none of those technicalities affected by so many writers on finance. It is a lucid, accurate, masterly series of pictures showing the mechanism, with all its merits and defects, by which the banking and financial business of this country is carried on. Although it is thirty-five years since "Lombard Street" was published, even the original edition is by no means out of date, despite the banking changes which have supervened. Some reservations must, it is true, be made. For example, London, though still the most important financial centre in the world, no longer holds the unquestioned supremacy which, partly as a consequence of the Franco-German war, it enjoyed when "Lombard Street" was written. Since that date, too, the relative position of private and joint stock banks has been entirely reversed, and the Bank of England is becoming more and more overshadowed by the larger banks of the latter class, some of which hold deposits larger than those held by the Bank itself, while several more have the disposal of sums almost as large. But after allowing for these and other changes wrought by time, the description of the Money Market in Bagehot's best known work is as applicable to-day as when it was penned, and as well worthy of perusal. With his instinct for putting his finger upon the weak points of a system, whether political, philosophical, or financial, the writer pointed

to the evils of our "One-Reserve System," and to the fact that while the ultimate banking reserve of the whole country is held at Threadneedle Street, the directors of the Bank of England do not acknowledge their responsibility to the public for the proper maintenance of that reserve. The evils incidental to this system are to-day fairly well recognized, and nothing but the differences of opinion which questions of currency invariably excite prevent them from being rectified; but it may be remarked that the fact that most commercial people realize now more fully than formerly the delicacy of the Money Market is partly due to Bagehot's persistent efforts to point that delicacy out. The best chapters in "Lombard Street" appear to us to be those which describe the Money Market as it is; the less excellent, those in which its faults are diagnosed and the remedies prescribed. There seems, too, to recur in the work a tendency to over-estimate the likelihood of very remote contingencies. For instance, what Bagehot says is perfectly true, that the actual gold reserve of this country is extremely small in proportion to the enormous mass of transactions based upon it, and that this reserve might with advantage be strengthened; but it is easy to lay too much stress even upon so important a point as this. Granted that the reserve is not large enough to meet all possible demands; it must still be borne in mind that banking itself is only possible at all on a very similar assumption, and that all the banks in the country would have to close their doors if the whole of their depositors asked for their money at the same time.

Taking another case, and conceding Bagehot's

contention as to the responsibility of the directors of the Bank of England to the country at large as well as to their own shareholders; it is true, as he points out more than once, that we are without satisfactory assurances on the matter, but it is also true that every rise in the Bank rate is an implicit and practical acknowledgment of this responsibility, and is enough for all practical purposes. If we are to judge the merits of a system by considering all the unlikely but possible abuses to which it is liable, what institution can be pronounced satisfactory? Bagehot himself recognizes this clearly enough in other than financial matters. One of the ablest passages in "The English Constitution" first enumerates the immense powers still vested in the sovereign under a limited monarchy, and then goes on to show how extremely improbable is the contingency of those powers ever being exercised to their full extent. In common fairness, we think, the argument here applied to political should be extended to financial institutions, and while we recognize, as we cannot do too clearly, that in theory the structure of the Money Market leaves much to be desired, and that its practical working is open to improvement, yet we shall do well to remember that the dangers to which it is really subject may easily be over-estimated.

But our combative instincts are running away with us, and we must leave "Lombard Street" and turn to other works. Bagehot's services to political economy at large, apart from its financial branches, were considerable, though there is some truth in the remark of Mr. Giffen, that Bagehot was not primarily an economist, but "primarily a man of letters of strong

genius and imagination, who happened, amongst other things, to take up with political economy." Readers of "The Postulates of Political Economy" will readily admit that no one has recognized more clearly than Bagehot the proper functions and the true limitations of the science, while all who have also read the biographical articles on Adam Smith, Malthus and Ricardo, published together with the "Postulates" under the title "Economic Studies," must testify to the author's clearness of thought and vividness of expression. We regard Bagehot as one of the few men who have succeeded in making the study of political economy thoroughly interesting; he has shown, to a degree which is certainly rare, that its alleged "dismalness" is often due less to any inherent want of interest in the science than to the uninviting manner in which it is expounded. Not only is he never dull, he is never obscure; no small praise in days like these, when, in other departments of literature, at any rate, clearness of expression is regarded by many as a sign of shallowness, while ambiguity poses as genius.

But it must not be imagined that because the title of this series of sketches has naturally led us to devote most of our space to the more financial of Bagehot's works, that these are superior to his writings on other subjects. There are many who regard "Physics and Politics" as his best effort; others, amongst whom we venture to include ourselves, have derived most enjoyment from his contributions to general literature. Some of the best of these are collected in two volumes under the title "Literary Studies," with an admirable memoir of their author by his college companion and

lifelong friend, R. H. Hutton, of the *Spectator*—a memoir which we commend to the notice of any who may wish to get an idea of the man himself, as distinguished from the author. The essays on "Gibbon," "Hartley Coleridge," and "Wordsworth, Tennyson, and Browning," should certainly be read, as should that on "The First Edinburgh Reviewers," and we should be greatly surprised if any of our readers who may be of a literary turn of mind put the volumes aside without reading their remaining contents. The style of many of these essays, like that of his works on subjects usually regarded as "heavy," abounds in humour and epigram. It is said that Macaulay used to boast that he would write a history which should prove as interesting as a novel. Bagehot, without boasting, has contrived to impart humour as well as interest to subjects far less inviting than history. Some of his epigrammatic phrases are very happy. Take a few random examples from his "English Constitution." Alluding to the feeling of loyalty which has gradually grown up around the sovereign, and the absence of that feeling in new countries, he says, "You might as well adopt a father as make a monarchy." Speaking of the respective functions of the sovereign and the prime minister, he says, "The Crown is the 'fountain of honour,' but the Treasury is the spring of business." The Cabinet he describes as "the hyphen which joins the legislative part of the State to its executive part"; while it would be difficult to find in a single phrase a more apt description of the United States Congress than that with which he has furnished us: "A debating society adhering to an executive." In his wealth of illustration Bagehot strongly reminds

us of Adam Smith, who, we imagine, would have been delighted with such an illustration of the laws of value as that, given in the "Economic Studies," of the two schoolboys exchanging their belongings. It would not be difficult to find other parallels between the two men, some of a more accidental kind, such as the different effects which a residence of some time in Paris had upon them, but we must forbear, and bring this sketch to a conclusion; its main purpose will have been achieved if it leads any of our readers to cultivate a closer acquaintance with the writings of the banker, economist, and man of letters who has furnished its *raison d'être.*

CHAPTER XXIV.

SOME REPRESENTATIVE BANKERS.

III. The Private Banker—Lord Avebury

(Of Robarts, Lubbock and Co.) (*a*).

THE writer who has familiarized us with the idea of seven Lord Roseberys would find little difficulty, if he were to turn his attention to the subject of this sketch, in depicting almost as great a number of Lord Aveburys. There is Avebury the scientist, past president of the British Association, fellow-worker with Darwin, and author of "Ants, Bees, and Wasps." There is Avebury the politician, promoter of the Bank Holidays Act and the Bills of Exchange Act; Avebury the archæologist, author of "Prehistoric Times" and "The Origin of Civilisation," and framer of a Bill for the preservation of ancient monuments; Avebury the philanthropist, advocate of the early closing movement, President of the Bank Clerks' Orphanage, and Principal of the Working Men's College; Avebury the man of Letters, author of "The Pleasures of Life," "The Use of Life," and "The Beauties of Nature," and initiator also of the once famous controversy on

(*a*) From the *Insurance and Banking Review*.

the Best Hundred Books. Lastly—and more to the point for our present purpose—there is Avebury the banker and man of business; originator of the Country Clearing system, and of the publication of the Clearing House Returns; the first President of the Institute of Bankers, and one of the most notable figures in the sphere of English Banking.

It is now sixty years since, at the age of fourteen, John Lubbock was taken from Eton by his father—himself not only a banker, but also an eminent mathematician and astronomer—and commenced his banking career in the establishment in Lombard Street now known under the title of Robarts, Lubbock and Co. To enter a bank at fourteen is, of course, an exceptional occurrence, but the step was in the present instance decided upon in consequence of the sudden illness of several of the partners of the firm. At the age of 22 he was taken into partnership, and that he made himself master of the details of banking business is shown by the fact, already mentioned in passing, that he later on instituted the now familiar system of "Country Clearing," by which, as our readers well know, cheques on country bankers, previously sent by post all over the country at considerable expense and trouble, are now sent instead to the Clearing House, and there received and dealt with by the London agents of the country banks. The economy thus effected is but one of many matters for which the banking world is indebted to Sir John, and is eclipsed by several items in his Parliamentary career. He was returned in 1870 and 1874 as Liberal member for Maidstone, and in 1880, on his rejection at Maidstone, for London University, and during his career in

the House of Commons he achieved, for a private member, an entirely exceptional legislative record, having successfully promoted and carried no fewer than 21 measures, many of them relating to banking and commerce, and several of the number of great importance. The Bank Holidays Act of 1871, by which four new Statutory Bank Holidays were added to the two already in existence, is a case in point, and although the general public have made use of the Act to an extent which was certainly not contemplated by its framer, and have so deprived banking men of some of its benefits, there are, nevertheless, very few who would wish to see the additional holidays abolished. Lord Avebury himself admits the inconveniences which have resulted from the transformation of Bank Holidays into National Holidays, but he has also pointed out the compensating advantages of the change to be found in the general re-union of families which it renders possible, and in many other directions. The Bankers' Books Evidence Bill, by which Bankers, instead of being compelled to impede their business by taking their actual books into court as evidence, are allowed to submit duly certified extracts from those books, is another useful piece of legislation for which the former member for London University is responsible; while the Bills of Exchange Act, 1882—an Act not only valuable in itself, but valuable as forming the first of a series of Acts codifying the law relating to the various subjects with which they deal—may be regarded as his culminating service both to his own profession and to the commercial community. The keynote of his Parliamentary life may be inferred from a declaration which he lately made in an address

to the members of the Working Men's College in Great Ormond Street. He entered Parliament, he told his hearers, in the hope of carrying three Bills, one to constitute a few more holidays, one to check the wanton destruction of ancient monuments, and a third to shorten the excessive hours of labour in shops, and we have already seen that his Parliamentary activities have extended far beyond the modest programme of reforms with which he started. No notice of his public life should omit a reference to his connection with the London County Council, of which he was the first vice-chairman, and for the guidance of which during its early and most critical stages he deserves an amount of credit second only to that due to its first chairman, Lord Rosebery.

This brief record of some of Lord Avebury's achievements in his capacities of banker, politician, and philanthropist, is, of course, not a complete one, but it may suffice to show that he has by no means neglected the more practical sides of life. It is nevertheless quite open to question whether these work-a-day occupations are as entirely congenial to him as are his scientific hobbies, and a perusal of his published works gives an impression that he is never happier than when immersed in science, especially in the study of natural history. A banker from force of circumstances, he is a lover of science from heredity and from choice. A sense of duty and of conviction is the mainspring of such professional productions as (to take the first example which comes to mind) such contributions to controversy on monetary topics as his treatises on Bimetallism, while a thorough love of the subject inspires such of his scientific treatises as that

on "The Origin and Metamorphoses of Insects," and the work already mentioned on Ants, Bees, and Wasps. The conjecture might be hazarded without misgiving that some of his most pleasantly passed hours have been spent in discussing natural history with his friend and neighbour Darwin in his Kentish home, and in making those close observations of insect life the publication of which has added so largely to the general knowledge of the subject.

Lord Avebury's achievements in the general domain of literature, for the most part extremely readable, and always thoroughly healthy and bracing in tone, show somewhat less originality than his scientific work, partly perhaps in consequence of his very frequent use of quotations. His themes, too, like those of Wordsworth, are largely of the commonplace order, and it requires a Wordsworth to invest such themes with freshness and with power. It must be remembered, however, that the most effective of his essays are reproductions of addresses delivered from time to time before various institutions, mostly educational, and on such occasions one looks rather for practical subjects and interesting modes of presentment than for brilliant themes and marked originality. Among the best specimens of these essay-addresses are those entitled "The Pleasures of Travel," "Science," "A Song of Books," and the memorable and much-debated paper entitled "The Choice of Books." That his judgment on the last of these subjects carries weight in literary circles is shown by the fact that an eminent firm of publishers brought out in a uniform edition his entire list of "the best hundred books."

From the banking standpoint, which is, of course,

that principally taken in this series of biographical notices, the interest taken in Lord Avebury's career is based less upon his efforts in any single one of the many departments of life to which he has given his attention, than upon the fact that he combines in himself to a very marked degree the principal qualifications and characteristics of the English private banker. Like the Fowlers and the Trittons, the Bolithos and the Martins, he is a type of the men who, having inherited and been brought up in large banking businesses, have not been content to limit their energies by the four walls of their banking houses, but have turned their attention also to the solution of the political, economic, and philanthropic problems of the larger world, as well as to its less serious concerns. The fact that, through the rapid development of the joint stock principle, this type of banker is rapidly becoming extinct, lends an additional interest to the career of a man who, like the subject of this sketch, may be regarded as its foremost living representative.

CHAPTER XXV.

SOME REPRESENTATIVE BANKERS.

IV. The Banker as Amalgamator—Mr. John Dun (Of Parr's Bank) (*a*).

FOR many years Mr. John Dun has held the dual position of general manger and director of Parr's Bank, and now, after an eminently successful and in many ways striking career, he is giving up the general managership, but retaining his position as a director, in which capacity he will continue to place his special knowledge of its business at the disposal of the bank with the making of which his name will always be associated.

Mr. Dun found Parr's Bank a small but old-established provincial institution, with a head office at Warrington, three branches in Lancashire and Cheshire, a capital of £100,000, and deposits amounting to eight hundred thousand pounds or so. To-day, on relinquishing the more arduous part of his duties, he has the satisfaction of seeing it a powerful and progressive metropolitan and provincial bank, with a balance-sheet showing "sides" of over 30 millions,

(*a*) *Bankers' Magazine*, March, 1902.

with 140 branches spread over a score of counties, and business connections throughout the world. This growth is almost entirely the result of a judicious policy of amalgamation conceived and carried through by Mr. Dun. Leaving the Bank of Scotland, of which institution he was chief inspector before he was thirty, Mr. Dun assumed in 1865 the general managership of Parr's, which he has thus held for over thirty-six years. After carrying through a long series of amalgamations in the north, he turned his thoughts to London, where he acquired a foothold for his bank by means of an amalgamation with the historical Lombard Street banking house of Fuller, Banbury, Nix and Company. The Alliance Bank, with its head office in Bartholomew Lane, and its string of suburban branches, was taken over in 1892; Sir Samuel Scott and Company in 1894; the Consolidated Bank, with its numerous branches in Manchester, and its City and West End offices in London, in 1896; and many minor businesses before and since. It is as the man who planned and carried through these coalitions, and consolidated the resultant business into a consistent whole, that Mr. Dun is best known to the banking world, and we are pleased to gather that his services to the bank have been fittingly and practically recognized by his co-directors and the shareholders.

One must look to several factors for the secret of Mr. Dun's success. Sir Arthur Helps, with a mixture of shrewdness and humour, has said that the first essential to success in life is to be born North of the Tweed. Mr. Dun had the good fortune to comply with this condition. He is a Scotchman through and

through. He was not only born a Scotchman; he was born a banker. Put before him an intricate piece of business, and, with an inerrancy which seems like instinct, he will put aside the non-essentials, get to the core of the matter, make up his mind as to whether it should be entertained, and give his decision, favourable or otherwise, with geniality and courtesy. Add to his power of getting at once to the pith of a matter —amalgamation, large advance, investment, or issue of stock—and of giving a balanced judgment upon it, that "infinite capacity of taking pains," which his distinguished fellow-countryman has told us is genius, and the gift of gaining and holding the unswerving loyalty and personal regard of his managers and staff, and you will have some idea of his equipment for the office he vacates. His interests, business and otherwise, are many. He is the author of a well-known work on banking statistics, a member of the Executive Council of the Institute of Bankers and of the Association of English Country Bankers, a linguist, a student of literature, and an ardent golfer. That he will still, as a director, keep in close touch with the business which he has created is a matter of satisfaction to the clients and shareholders of the bank, who will unite with his hosts of friends in wishing him well in the comparative leisure which he has earned and to which he now looks forward (*a*).

(*a*) Died February 21st, 1909.

CHAPTER XXVI.

SOME REPRESENTATIVE BANKERS.

V. George Rae

(Of the North and South Wales Bank) (*a*).

THE death of Mr. George Rae, for many years general manager and afterwards chairman of the North and South Wales Bank, has caused the sincerest regret in banking circles, not only in Liverpool and the North, where his personality and his services were best known, but throughout the country, for his contributions to banking literature—especially his "Country Banker"—have made his name a very familiar one.

Like so many of our successful bankers, George Rae came from North of the Tweed. He was born in Aberdeen in 1817, and entered the service of the North of Scotland Bank in 1837. Two years later he took the accountancy of a branch of the North and South Wales Bank, and in this service his progress was exceedingly rapid, even for times when promotion was quicker than at present, for at the end of six years, and at the age of twenty-eight, he was appointed general manager.

(*a*) From the *Bankers' Magazine*, September, 1902.

The history of Mr. Rae's banking career from this time is the history of the growth of the North and South Wales Bank, and some indication of this growth is afforded by a comparison between the capital and deposits in 1851 and at the present time. In the first-mentioned year the amount of the capital was £215,000; it is now £2,400,000. The deposits then amounted to £325,000; they are now between 9 and 10 millions. Mr. Rae's general managership was characterized by great energy and shrewd judgment, and its success was partly due to the early and clear recognition of two factors in banking progress which are now generally recognized, but which were by no means recognized at their proper value in the fifties and sixties —the policy of branch extension and the cultivation of the small depositor. In 1865 Mr. Rae was made managing director of the bank; in 1873 he was elected chairman; in 1898 he was compelled by failing health to relinquish first his chairmanship and then his directorship, but his mental powers remaining unimpaired, he was appointed consulting adviser to the board, and continued his connection with the bank in that capacity up to the time of his decease on the 4th of last month.

This, in baldest outline, is the story of Mr. Rae's banking career, but it is far from exhausting his services to banking. He was one of the founders and a vice-president of the Association of English Country Bankers, and as chairman of the issuers' section of the association he gave evidence in 1875 before the House of Commons Committee on banks of issue. He was a trustee and vice-president of the Institute of Bankers. To him, more than to

any other man, was due the passage of the Bill which, in 1876, revolutionized joint stock banking by practically putting an end to the system of unlimited liability. He wrote many pamphlets and books on banking and financial subjects, such as "The Reorganization of Savings Banks" (1865), "The Country Banker; his Clients, Cares and Work" (1888), "Bi-Metallism" (1898), and was a contributor both to banking and general magazines and reviews. Quite recently we had occasion to record his munificent contribution towards the establishment of a chair of banking and currency in the North Wales University and the founding by him of a "George Rae Prize"—the interest on £350 Cape Government Loan—for practical banking in connection with the annual examination of the Institute of Bankers.

We have not space to record Mr. Rae's more local services, such as the rehabilitation, years ago, of the finances of Birkenhead, the town in which he lived; nor to do more than make a passing reference to his love of literature, his encouragement of art (he has left a very valuable private collection of paintings by Rossetti, Burne Jones, Ford Madox Brown, and others), and his personal kindliness. An instance of the last of these traits may be of interest. The present writer happened, in the course of a magazine article on "The Literature of Banking," to refer in eulogistic terms to "The Country Banker." Mr. Rae, though then well over eighty, took the trouble to find out the writer of the article, and to forward to him an autograph copy of the book, with a kindly personal message, which has been more than once repeated. A

reperusal of "The Country Banker" (which, by the way, first appeared as a series of articles in the *Bankers' Magazine*) confirms the opinion that by this work its author will be most widely remembered. The style of the book is delightful; its matter is the embodiment of years of varied experience; and it shares with Walter Bagehot's "Lombard Street" alone among financial treatises the distinction of being exceedingly readable. The quaint quotations at the headings of the chapters of this book, and the list published in the Liverpool papers of Mr. Rae's collection of works of art, serve to remind us that, like his friend, J. W. Gilbart, he was a banker of a type now all too rare, one in whom excellence in his profession was combined with a keen delight in the "humanities."

CHAPTER XXVII.

BANKING "DON'TS" FOR JUNIORS (a).

WHEN your manager asks you a question which you are unable to answer off-hand, don't look silly and say you "don't know." Say, at once, that you will look into the matter. Never submit a point to your manager for decision without thoroughly acquainting yourself beforehand with all the facts of the case. Recollect that, while it is for him to give decisions, it is for you to supply *all* the information on which his decisions are based.

If you happen to arrive at the bank half an hour late, your cheeks aglow with your efforts to make up for lost time on the way, don't tell your chief that you have had a severe bilious attack on your way from the station. Remember that due regard for local colour is an important element in the success of *any* form of imaginative art.

If, after a few months' experience, you find you know considerably more about banking than your

(a) From the *Bankers' Magazine.*

manager or chief clerk, don't, purposely, give them cause to suspect it. Conceal the fact so long as possible; until, in fact, it comes out in the ordinary course of business.

Don't apply to head office, without the knowledge of your manager, for transfer to another branch or to head-quarters. As a general rule (to which, however, there are exceptions), it is far better to consult your manager frankly as to whether such an application would be advisable, and, if he thinks it would, to get him to make it for you. Choose your opportunity for such consultation carefully, avoiding especially a day when it is evident that your chief wants to get off. Even the right time of day for broaching the subject is a matter to be considered. A study of gastronomic phenomena will help you here.

Don't ask your superior officer for a "rise." Tell him, rather, that you are hoping for an increase of salary. Better still, let your merits speak for themselves. Unless you have been in domestic service, don't tell your chief that you want to "better" yourself.

If an unknown lady calls at the branch when your manager is at lunch, don't rush up and summon him straightway. Politely request the visitor to be so kind as to write her name and the object of her call on a slip of paper, so that you may send the information up. In nine cases out of ten you will find that the caller is either a "book tout" or a collector for an unknown and undeserving charity. Be careful, on the

other hand, not to choke off genuine new business because you don't happen to know the person who offers it.

Don't neglect any legitimate means of getting out of "the rut." The best of all ways to accomplish this is to perform thoroughly, neatly and quickly (*not* quickly, neatly and thoroughly), whatever office work may be entrusted to you. Another important but subsidiary method is to study your business and to read about it, taking up such examinations and lectures as will be useful in this direction and are well thought of by your manager and by your head-office authorities.

Don't think that any coat is good enough for the office. It is true that clothes don't make the man, but, as the "American Merchant" reminded his son, they make all that is seen of him except his hands and face during business hours.

Don't, when you are new to the service, allow yourself to be despatched to the post-office by your colleagues for "a shilling verbal agreement stamp"; or, if you return from such an errand with the message that the local post-office "doesn't keep them," don't go out again and ask for one at the nearest stationer's.

On the same lines, don't be persuaded to look up in the Stock Exchange list, among American rails, the price of "Coalers" and "Grangers," or, failing that, to look them up in "Burdett" or the "Stock Exchange Year Book."

Don't, in seeking an appointment in a bank, apply for a "berth," a "birth," a "job," a "billet," or even a "situation." The word "appointment" or "clerkship" will amply meet the case.

Don't ask at your first interview what is the bank's hour for closing, or how long you will be allowed for lunch. It will not take you long to find these things out after you have been appointed.

Don't say in your application that you are well-grown and good-looking. Don't even say that you are considered so. Don't enclose a photograph with your application; though, if you feel you must do so in justice to yourself, don't let it be a photo taken in evening dress.

If you apply from North of the Tweed, don't say that, having discharged, to the complete satisfaction of the agent, all the duties of a branch in a Scotch village, you feel competent to undertake *any* duties at the head office of a London bank.

When you are sitting for the entrance examination, don't confide your educational shortcomings to the official who brings the examination papers. Don't tell him, for example, that you are afraid you are rather a "crock" at arithmetic, or that geography was "never your form." Leave your papers to speak for themselves. They will be eloquent enough, and probably less slangy than your verbal confidences. When you hand the examination papers

back, don't ask whether you may smoke a cigarette in the waiting-room while the marks are being awarded.

Don't mis-spell the name of the bank to which you are applying for an appointment, nor the name of the official to whom your application is addressed. These are very small matters, but *ex pede Herculem.*

CHAPTER XXVIII.

SOME TENDENCIES AND SOME WEAK POINTS OF THE ENGLISH BANKING SYSTEM (*a*).

IT is now desirable to touch upon some of the tendencies and some of the weaknesses of our banking system; and as the two things are to some extent interwoven, it will be well not to deal with them separately, but to point out the tendencies, and incidentally to note the weak points.

One of these which must have struck you all is the tendency of banking deposits to increase to an extent altogether out of proportion to the amount of the reserve held against them. This problem of banking reserves is comparatively a recent one, the reason being that the main function of banks, not only in the early part of last century, but also well up to and even beyond the middle of the century, was not the collection of deposits, but the issue of notes. Deposits were then insignificant. It is only of late years that this question of reserves has become acute, but there is now no mistaking its significance. The most important banking

(*a*) A lecture delivered at the London Chamber of Commerce. Reprinted from the *Bankers' Magazine*.

question of the day and of the next ten years is the question of how the cash reserve of the country is to be made adequate for the possible calls which may be made upon it. Against bank deposits amounting to about 1000 millions we have in the Bank of England at this moment just about £25,000,000 on which we can rely. Separate reserves of their own, worth mentioning, are kept by a few banks only. The country bankers keep their balances with the large London institutions, and the country branch banks with their head offices in London, which in turn keep their reserve with the Bank of England. Think of the demands which may arise for gold in the country. Think of the demands which may arise, not only in connection with the domestic requirements of the United Kingdom, but from possible foreign demands. To take one item only, consider the amount of foreign money employed in the London money market and liable to be withdrawn at any moment. The foreign banks which are, to an increasing extent, establishing offices in London lend out money in the London money market, which is partly at call and partly at short notice. Against all possible demands we hold a reserve fund of only 25 millions at the bank. Even in normal times this amount is too small, and in a time of panic it would be altogether indequate.

Many remedies have been suggested for this state of things. In his "Lombard Street"—a work familiar to you all—Bagehot made several suggestions with a view to remedying this state of affairs, and improving the gold reserve. (1) That there should be a formal recognition on the part of the Bank of England of its responsibility to the nation for the custody of the

national reserve. The necessity for this suggestion arises from the fact that the Bank of England directors have never formally and in terms acknowledged their obligation to keep a proper banking reserve. What they say is, in effect, "Our duty is to look after the interests of our shareholders, and it is to them, and not to the nation, that we hold ourselves responsible." Fortunately, however, it is found that their actions belie their words, and it is well that this is so. In times of panic they lend with the utmost freedom, and thus help to allay pending or actual trouble. Bagehot was not satisfied with this. He wanted a definite acknowledgment by the directors of their responsibility in regard to the maintenance of the national reserve, and even suggested that that responsibility should be defined and embodied in a formal deed of trust. (2) His second suggestion was to improve the administration of the Bank of England by the diminution of the "amateur" element and the increase of the trained banking element. None of the directors of the Bank of England, he pointed out, are bankers. He dwelt on the fact that a banker, as such, is disqualified from being a director of the Bank; that the directors are, of course, for the most part first-rate business men, but not trained bankers. I cannot think that this is a real grievance, for although the Bank Court is composed of merchants, financiers, etc., the directors have at their service trained permanent officials—men possessing both experience and judgment—who can give them information and advice on all matters which arise. (3) The third remedy which Bagehot proposed —and it is one that is now generally considered desirable—is that steps should be taken by which the

contingent demands on the Bank of England should be reduced as much as possible. The weak point of this suggestion lies, obviously, in its vagueness.

Other suggestions have been made more recent in date than the foregoing. One is that there should be a gradual accumulation of gold reserves on the part of the banks—reserves to be held separately from the reserve of the Bank of England. The idea is that, as time goes on, the joint stock banks should hold a reserve themselves, in addition to the reserve held by the Bank. It is urged that there would then, in time of panic, be a double line of defence, instead of the single line on which we now rely. Another remedy suggested is that the joint stock and other banks should keep larger balances with the Bank of England than they are in the habit of keeping at present, on the understanding that the Bank itself will keep a larger reserve. There is this to be said in favour of this arrangement: that it would involve the least disturbance of existing arrangements; it would move along the line of least resistance. I am disposed to think that the solution of this problem of reserves lies in this direction; in the other banks keeping larger deposits with the central institution: but it is obvious that the question deserves far more detailed consideration than can be devoted to it when the whole field of banking is being thus rapidly surveyed.

The question arises as to why a statutory power should not be given to the Bank of England, as it is to the Bank of Germany, which has adopted the "elastic" system, to increase its issue of notes, in case of need, beyond the amount which it is authorized to issue in the ordinary course. The Bank of Germany,

in times of pressure or of panic, increases its note issue, paying a percentage to the Government in respect of the excess. We dealt some evenings ago with the difference between the elastic system of Germany and our own "cast-iron" system. You will remember that in the case of this country the Bank Act stipulates that only a certain amount of notes shall be issued against securities, and that beyond that amount every note put into circulation must have an equivalent sum in gold deposited against it. In Germany the legislature have arranged for an automatic arrangement, by which, should occasion arise, the Imperial Bank of Germany may issue further notes. This course, if adopted here, would serve to allay the apprehension as to whether there will be "enough notes to go round," since Bank of England notes are never discredited, even in the worst times, but are always taken as cash.

Why, it may well be asked, should the credit of the country be subjected to serious periodical strain when, by a comparatively simple statutory arrangement, the strain and the anxiety could be obviated? The rigid, hard-and-fast rule of the Bank of England in regard to note issues seems a very weak spot in the banking fabric. If the banks will voluntarily keep larger reserves among themselves or with the Bank of England, and if Parliament will adopt the elastic limit system for the Bank of England note issue, then this anxiety as to the sufficiency of banking reserves will be allayed. It is not an untried remedy which is advocated. It is a remedy which has proved of the greatest benefit elsewhere.

Another tendency which must have come under the

observation of every one here is that banks show a disposition to open a large number of new branches, and that there is an excessive amount of competition among these branches for business. This is largely the result of another feature of banking, namely, the Joint Stock tendency. Private banks cannot do very much in the matter of new branches. If a man is rich, his financial position as a private banker may be fairly well known in the neighbourhood in which he lives, but it is impossible for his strength to be equally well known in many other parts of the country, and, consequently, it is practically impossible for him, even if inclined to extend his operations, to open branches to any extent. Joint stock banks, on the other hand, can and do, as you know, start branches in various parts of the country, and each branch serves to advertise the others. Up to a certain point this branch extension, and consequent competition, is an unmixed advantage to the public. Think what a convenience it is to have a bank so close at hand as banks are now. There was a time when people had to make a considerable journey to get to their banker. Now, if the nearest bank is further off than the pillar-box, they write to the head office of some well-known institution and ask the directors to establish a branch nearer, and point out the crying need of the district for further banking facilities. Of course, up to a certain point, this keen competition is good for the public. Rates of interest and commission are lowered by it, each new bank making its rates as fine as possible in order to attract business. Up to this point, and in some other ways, the public can say, with Iago:

> "Now whether he kill Cassio,
> Or Cassio him, or each do kill the other,
> Every way makes my game!"

There comes a point, however, when this competition may cease to be a public advantage, and may become a public danger. An illustration of this was furnished by the Australian banking crisis of 1893. One of the causes of that crisis was over-competition. For example, a man had property and asked Bank A to make an advance against it. If Bank A refused he would go to Bank B, and would get the advance. Consequently Bank A, in order to retain its business, had, or thought it had, to make advances to an unwise extent and with insufficient margin against deeds of property. This partly caused and was partly the result of an inflation of property values in Melbourne and in other parts of Australia. The result we all remember. For the people to have bought property to such an extent as they did would have been impossible without the aid of the banks, and some of the banks did not go in for this kind of business willingly. The result of the undue competition was that the banks over-advanced against land and houses, and eventually found themselves simply loaded up with property of this kind at inflated values. When they tried to sell the securities they could not make them realize anything like the amount at which they were valued, and the inevitable crash ensued.

You can see that the multiplication of branch offices, while it is a convenience up to a certain point, can become a serious danger, inasmuch as branches are tempted to lend unduly on securities which bankers should only advance against quite

temporarily to a very limited extent and with an ample margin.

There is another phase of competition which should be touched upon. This phase I do not remember to have seen specifically dealt with in treatises on banking. I refer to the growing tendency on the part of banks to ear-mark, for the benefit of particular depositors, securities which should form a free asset; a security to the general body of depositors. You will find now in some balance-sheets, either in the investment column or as a foot-note, that a certain portion of the bank's investments are held for public bodies such as county councils, borough councils, corporations, etc. In order to secure the accounts of these bodies the banker hypothecates to them certain securities, such as Consols, which would otherwise be held for the benefit of its depositors in general. This tendency to tie up assets which should be free, should be narrowly watched by the public, and carefully controlled by bankers. That it should be resorted to in some cases seems inevitable. It is done by some of the best and soundest banks. But it is a course which should be resorted to as little as possible.

Then there is the tendency to amalgamation which is so striking a feature of banking at the present day. We see the absorption of private banks by large joint stock concerns, of small joint stock banks by larger institutions, and we see the union of big joint stock banks with one another. Consider the great strides in this respect which have been taken by the London banks, for example. Looking recently through a musty heap in a desk, I came across a paper which was handed to me on entering a bank over twenty-five

years ago. It was a list of the London clearing banks of that time, but it would now be scarcely recognized, the changes which have taken place in these London banks are so many. For instance, taking the first ten banks which appeared in the list, we find that the Alliance Bank has been taken over by Parr's; Barclay, Bevan & Co. have absorbed many smaller banks; Barnetts, Hoares, Bosanquet & Co., and Brown, Janson & Co. have been taken over by Lloyds; the Capital and Counties Bank has itself joined the ranks of the amalgamating banks; the City Bank has been taken over by the London and Midland Bank; the Consolidated Bank has been absorbed by Parr's; Dimsdale & Company have been taken over by Prescotts, who have themselves become merged in the Union of London and Smiths, and Fuller, Banbury, Nix & Co. have become incorporated with Parr's. Thus, of the banks which twenty years ago constituted the first ten names on the list of clearing bankers, eight have entirely disappeared from the list, and two (Barclay & Co. and the Capital and Counties Bank) are themselves among the amalgamators. The process of absorption is still going on, and not a year goes by without several further fusions being recorded.

One effect of this movement is that the weaker banks are being weeded out. The absorbing banks are, on the whole, better managed than the absorbed. In knowledge of general banking business the large banks, with head offices in prosperous centres, are, as a rule, superior in point of system and of general administration to the smaller country banks. The small banks, with their small capitals and resources,

are being replaced by the larger banks with large capitals and large reserve funds, and the result is the strengthening of the system as a whole. Even the local interests concerned need not suffer by these amalgamations with large banks, for the large banks, when they take over smaller institutions, seldom alter the *personnel* of the staff. The public, therefore, have the same managers and staff to deal with as previously, and local wants are well represented at headquarters and there favourably considered. The country benefits by judicious amalgamations, in that its banking business is in stronger hands.

There is an incidental consequence of the amalgamation movement which is worthy of note, and that is the extinction of many country bank-note issues. When a country bank amalgamates with a London bank it has to forfeit its note issue, as no bank with a head office in London can issue notes. The Bank of England, however, is, as you are aware, allowed to issue its own notes to the extent of two-thirds of the lapsed issues of the amalgamated country banks. The effect of this on the country is good. It tends to take the issue of notes away from the comparatively weak banks—please note the word "comparatively," and give it due weight—scattered over the country, and to put it into the strong hands of the Bank of England at the centre of affairs.

A matter which should be noticed in passing is the tendency of loans to increase in proportion to discounts in the total advances made by banks. The causes of this are familiar to you. It is largely due to the gradual weeding out of individuals and firms who used to take credit, and the substitution for them of

companies which pay cash and take discounts. The firms who used to be glad to take credit and to accept bills are being supplanted to a large extent by companies who pay cash for everything they buy. From the banker's point of view this comparative increase in loans is somewhat regrettable, because bills of exchange must still be regarded as the ideal banking security.

Another point is the tendency towards cosmopolitanism of the English banking system. England is no longer self-contained in point of banking facilities. There has been a considerable increase of late years in the number of foreign banks in London, and at the same time we hear of English banks establishing branches abroad. It was stated so long ago as 1898 that there were thirteen first-class foreign banks which had offices of their own in London; and the united capital of these banks was represented to amount to no less than £50,000,000 sterling. Of these foreign banks we may mention the names of a few, such as the Crédit Lyonnais, the Deutsche Bank, the Comptoir National d'Escompte de Paris, and the Société Générale. These are affecting the English banks to a certain extent; but, on the other hand, there are, as we have seen, rumours that the latter are thinking of carrying the war into the enemy's country by opening branches abroad to attract business, instead of simply confining their attentions to the Mother Country.

One effect of the establishment of these foreign banks in England is that they can dispense with London agents. They naturally act as agents here for their head offices abroad. Their branches also

compete, in a limited measure, for business with the London banks. These foreign banks, however, not being able to belong to the London Clearing-house, still have to have an English bank to clear their cheques for them. In the competition for business they attract the accounts of some of the many foreigners trading in London, who naturally prefer to bank with institutions from their own country rather than with the English bankers. Such competition at present, though, is almost negligible, and is more than set off by the tribute which the existence of foreign banks in our midst affords to the fact that London is still the "hub" of international trade and international finance. It is because London is the financial centre that foreign institutions are attracted to it. You have probably noticed that Bagehot, in "Lombard Street," speaks of London as being the "unquestioned financial centre of the world." That was so when Bagehot wrote, but the supremacy of London is no longer unquestioned. At the time "Lombard Street" was written, the Franco-Prussian war had not long ended, and French "ascendency" (one must not say supremacy) in financial matters had for the time being passed away, while the Germans had not had time to assert themselves in finance, as they have been able to do since with such effect. Neither had the United States, which were themselves still suffering from the effects of war, come so well to the front. Now, London has keen competitors across the Channel and across the Atlantic, but the increase in the foreign banks in the Metropolis shows at any rate that its financial glory has not yet departed.

There is one other tendency which I will only mention, and that not altogether seriously. This is the proposed nationalization of banking; an old suggestion, familiar to readers of the literature of Socialism, and one which was, not long ago, revived, in so remote a part of the kingdom as the Isle of Man, by Mr. Hall Caine in his capacity of a politician. One of the "planks" of Mr. Caine's political platform as a candidate for the House of Keys was the proposal that the banks of the island should belong to and be worked by the Government. I do not propose to trouble you with a discussion of the suggestion, either in the form in which it was once brought forward by Marx and Lassalle, or as advocated by Mr. Hall Caine. The business of banking is one which requires, on the part of its higher officials, technical training, specialized experience, considerable administrative ability, and absolute independence—qualities which do not invariably characterize a Government department. If we allowed Government—I speak, of course, of Governments in general—to do our banking for us, we should run the risk of incapacity and of undue influence, and it may safely be affirmed that, while the State may in some instances be entrusted with the custody, if not with the investment, of the savings of the people, the task of lending—that department of a banker's business which calls forth his best powers—is better left in trained and independent hands.

CHAPTER XXIX.

THE LITERATURE OF BANKING (*a*).

THE task in hand for the remainder of this evening is a large one for so short a space of time. It is, very briefly, to indicate to the various sections of which this audience is composed, a few—only a few—of the works dealing with the subjects which we have together studied during the six evenings of these lectures.

Let me consider first that section of the audience which has the fortune—I will not say good or ill—not to be in a bank. What interests them should, *a fortiori*, interest the banking men also. To the collegiate and legal and business elements, what shall be said about technical literature, in so far as it relates to banking and the Money Market?

In the very forefront of any category intended for the general reader should be placed two writers, Walter Bagehot and George Rae, both of whom possessed the rare merit of making a work on a

(*a*) The concluding part of a lecture delivered at North Wales University College, Bangor, under the "George Rae" Bequest. Reprinted from the *Bankers' Magazine*, January, 1904.

technical subject thoroughly readable, even to those who are not engaged in the operations with which they deal.

Taking the books in chronological order, we will deal first with Bagehot's "Lombard Street," which is concerned with the Money Market and the Bank of England; and we will then concern ourselves with "The Country Banker," the name of which renders any description of its scope superfluous.

Some of you will be already acquainted with Bagehot's work in other fields; with his "Physics and Politics," a treatise dealing with the application of the principles of "Natural Selection" and "Inheritance" to political society; you will have read "The English Constitution," a far more readable work, though less exhaustive, than the standard work of Gneist on the same subject; or you may be familiar with "Literary Studies" and "Economic Studies"; the latter, to my mind, the clearest exposition of certain problems in political economy which has yet been penned. For dealing with the Money Market, as he does in "Lombard Street," Bagehot had special qualifications. He was for some years a banker, and as a banker he saw the market from one point of view. He was afterwards, and for many years, the editor of the *Economist*, and was thus enabled to look at things financial from another standpoint. He was also for a long period the trusted adviser of the greatest Chancellor of the Exchequer of the last century, Mr. Gladstone. Add to these qualifications a keen insight, and an exceptional power of happy illustration, and you can understand why Bagehot's book on the Money Market, in spite of numerous competitors, has

easily held its own for thirty years as the authoritative book on its theme. "How Lombard Street Came to Exist, and How it Assumed its Present Form," is the title of the historical section, whilst the actual working of the mechanism by means of which loanable capital is handled and transferred is described in the chapters which follow: "The Mode in which the Value of Money is Settled in Lombard Street," "Why Lombard Street is often Very Dull and sometimes Extremely Excited," "The Position of the Chancellor of the Exchequer in the Money Market." These few chapter headings will give you sufficient idea of the scope of the treatise, while for the manner in which these matters are dealt with I must refer you to the pages themselves. Some of you, either through the columns of a certain daily paper, or through his book on Robert Browning in the "English Men of Letters" series, know something of the work of Mr. G. K. Chesterton. To such I may say, though not without reservation, that what Mr. Chesterton is becoming to literature, Bagehot has long been to finance.

The other treatise—and the only other one which I propose to mention for the general as distinguished from the banking reader—is "The Country Banker; his Clients, Cares, and Work," by Mr. George Rae; a work to which I need no excuse for referring in the hall of the university in which its writer showed so keen and so practical an interest, and before an audience largely of the nationality on behalf of the material interests of which he spent a large portion of a useful life. Mr. Rae, like Bagehot, had special qualifications for writing the book by which, in financial circles, he is best known. He passed through

all the grades of the North and South Wales Bank, from accountant and branch manager to general manager and chairman, and may therefore be presumed to have known all about his subject from the inside. The contents of the book originally appeared in serial form in the pages of the *Bankers' Magazine*, under the title "The Internal Management of a Country Banker," under the pseudonym "Thomas Bullion." To analyze this book there is little time and no need. It should be read, and after its perusal the general reader who does not know a great deal more than he did before of the duties of a banker, and the nature of the operations in which a bank is engaged, had better give up reading.

Turning now more exclusively, and still more briefly, to the numerically largest section of the audience, consisting of banking men, a few more works, more strictly technical, call for attention. In venturing to give advice as to a course of reading to those of you who are engaged in the same business as myself, I am perfectly aware that I shall, in many instances, be referring to books with which many of you are already fully acquainted, but this is a contingency which cannot be avoided in a case of this kind. One warning, however, may with advantage be given. No man will ever become a banker by dint of reading about banking. Perhaps you remember an incident narrated in a recently published work already tolerably familiar, "A Self-made Merchant's Letters to his Son." The letters are supposed to be written by a successful Chicago pork-packer to a son studying at an American university, and, in addition to much that is shrewd and practical in the way of direct precept, the letters

are made the vehicle for some excellent stories embodying the supposed writer's business and other experience. In one passage, describing the qualifications of a young *protégé* whom he had started in a banking career, he says: "Got him in a bank, but whilst he knew more about political economy than the board of directors, and more about the history of banking than the president, he could not tell the difference between a fiver that the Government turned out and one that was run off on a hand-press in a Halsted Street basement." Theory is a good thing, and technical reading is a good thing, but both should, of course, be supplementary to, and not in substitution for, a practical knowledge of affairs.

There are, of course, certain books so indispensable to bankers as scarcely to need mention. The "Banking Almanac," the "Stock Exchange Year Book," the "Country Banker's Hand Book," (explaining the rules and practice of the Bank of England, the Stock Exchange, and the London Clearing-house), and "Questions on Banking Practice." These must be regarded as part of the essential office equipment of a bank; quite as much a part of your branch furniture as the scales on the counter or the stools behind it. They need not, therefore, be expatiated on here. I assume that you are familiar with them. The best general book on banking, within a reasonable compass, with which I am acquainted, is Mr. Moxon's "English Practical Banking." It begins by dealing with coins and coinage regulations; goes on to bank notes, cheques, and bills of exchange, inland and foreign; gives the practice, as well as something of the law, relating to these;

deals with letters of credit, circular notes, and stocks and shares, with customers' accounts, and, in brief and compact form—not a word wasted—with advances and securities. Being only a small work—a reproduction, in point of fact, of two lectures delivered before the Institute of Bankers—it naturally does not deal so fully with these matters as do the standard works which are concerned with the separate branches of the subject, but the man who has digested Mr. Moxon's book will have mastered the outlines, at any rate, and in some matters much more than the outlines, of banking practice, so far, be it always remembered, as these are to be obtained from books at all.

Another notable work, dealing less with banking proper and more, like "Lombard Street," with the transactions of the Money Market, is Mr. George Clare's "Money Market Primer and Key to the Exchanges," which opens with an explanation of the history, the construction, and the working of the Bank of England, goes on to a description of the operation of the Bank Rate, explains in detail the Bank of England weekly return, deals in a practical manner and with first-hand knowledge with the Foreign Exchanges, and winds up with chapters on the Open Market. A characteristic feature of this work is to be found in the diagrams which its author uses in explanation of the periodical fluctuations of Bank Rate, Market Rate, the Reserve, etc.

There is probably no Act of Parliament which has a closer connection with every-day banking practice than the Bills of Exchange Act, and the choice of works which explain this statute and illustrate its

interpretation is a large one. We have Byles on Bills, Chitty on Bills, and numerous others; but for daily use, and for the purpose of others than lawyers, a small handbook entitled "The Bills of Exchange Act, 1882," by Judge Chalmers, the draughtsman of the Act, will be found sufficient. Grant's "Treatise on the Law relating to Bankers and Banking" is a legal work worthy of notice, as is Alpe's "Digest of the Law relating to Stamp Duties," though the ground taken by the latter is covered, for most ordinary purposes, by the section on "Stamps" in the "Banking Almanac."

Among works on currency, F. A. Walker's "Money," and Professor Jevons' "Money and the Mechanism of Exchange," are perhaps the most readable, the Americanisms in the former adding piquancy to what might otherwise, though not justly, be regarded as a heavy dish. For sheer interest, as distinguished from daily utility, Sir Robert Giffen's "Essays in Finance," and Jevons' "Investigations in Currency and Finance," are hard to beat, and Gilbart's "History, Principles, and Practice of Banking" is, like the curate's egg, good in parts. Those of you who can be satisfied with nothing which is not encyclopædic may study with advantage Mr. Inglis Palgrave's "Dictionary of Political Economy," published in three portly volumes by Messrs. Macmillan, and, but for the fact that you might suspect me of holding a brief from the enterprising but almost too persevering advertising manager of the *Times*' edition of the "Encyclopædia Britannica," I would add that the banking and currency articles in that monumental and much-pushed work are, without exception (so far

as I have got with them), reliable and authoritative. I will not, however, do more than mention these larger works. If you read thoroughly those enumerated in the earlier part of my list—Bagehot, Rae, Moxon, Clare, and Chalmers—and dip into the others to an extent which your own inclinations may suggest, you will not only make yourselves more fully familiar with the ground we have traversed in these periodical excursions, but you will become acquainted with fresh paths, which time, and time alone, has prevented us from exploring together (*a*).

(*a*) Since the delivery of this lecture, Mr. Heber Hart's and Sir John Paget's "Law of Banking," Mr. Hartley Withers' "The Meaning of Money," and Mr. Sykes' "Banking and Currency" have appeared, and Gilbart's "History, Principles, and Practice of Banking" and Grant's "Treatise on the Law relating to Bankers and Banking" have both been revised and brought up to date. All these are well worthy of perusal.

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